

STATE OF INDIANA

DEPARTMENT OF LOCAL GOVERNMENT FINANCE



INDIANA GOVERNMENT CENTER NORTH
100 NORTH SENATE AVENUE N1058(B)
INDIANAPOLIS, IN 46204
PHONE (317) 232-3777
FAX (317) 974-1629

TO: All Political Subdivisions

FROM: Jason Cockerill, Commissioner

DATE: June 4, 2025

SUBJECT: Legislation Affecting Local Income Taxes

Introduction

The Department of Local Government Finance (“Department”) issues this memorandum to inform the public and local government officials about legislation passed by the Indiana General Assembly in the 2025 Regular Session concerning local income taxes (“LIT”). In particular, the following:

- Senate Enrolled Act 1 (“SEA 1”), signed into law by Governor Mike Braun on April 15, 2025.
- House Enrolled Act 1427 (“HEA 1427”), signed into law on May 6, 2025.
- House Enrolled Act 1142 (“HEA 1142”), signed into law on May 6, 2025.

This memorandum is being issued for informative purposes only and is not to be construed as providing legal advice or a conclusive interpretation of law, or as a substitute for reading the law.

NOTE: This memorandum will not cover the overhaul of LIT as enacted by SEA 1, as those provisions are effective July 1, 2027. To avoid confusion about what laws will be in effect in the immediate future due to recent legislation, this memorandum will only address those changes to LIT laws that are effective July 1, 2025. The Department plans to issue further guidance on the implementation of the new LIT configurations as July 1, 2027, approaches.

I. Homestead Property Tax Replacement Credits

Section 125 of SEA 1 adds Ind. Code § 6-3.6-6-3.1 as a new section, effective July 1, 2025, to provide that the county council may adopt an ordinance to impose a LIT rate to fund a credit against a property tax liability on qualifying homesteads (herein referred to as a “homestead credit”). These do not take the place of property tax replacement credits (commonly referred to as “PTRC”) under Ind. Code § 6-3.6-5.

A “homestead” for purposes of the homestead credit is any property that meets the definition of a “homestead” set forth in Ind. Code § 6-1.1-12-37. In addition, the homestead must be located in the county and eligible for the 1% property tax cap under Ind. Code § 6-1.1-20.6-7.5.

The tax rate must be in increments of one-hundredth of one percent (0.01%) and may not exceed three-tenths of one percent (0.3%). Since the statute is contained in Ind. Code § 6-3.6-6, the chapter pertaining to the LIT expenditure rate, the rate for the homestead credit must be considered a part of the expenditure rate and not PTRC or any other LIT rate.

A LIT rate imposed to fund the homestead credit shall be treated as a property tax. The Department may not reduce a taxing unit's maximum levy or any approved property tax levy or rate for any fund on account of this LIT rate. Property taxes imposed due to a voter approved referendum will not be affected by the homestead credit.

The homestead credit will be applied to the net property taxes due on the homestead after the application of any credit granted under Ind. Code § 6-1.1, including any credit granted under Ind. Code § 6-1.1-20.4 (local homestead credits) and Ind. Code § 6-1.1-20.6 (property tax caps and over 65 circuit breaker credit). The homestead credit must be applied uniformly.

The county auditor shall allocate the amount of revenue applied as a credit to the taxing units that imposed the eligible property taxes against which the homestead credits are applied. The Department shall assist county councils and county auditors in calculating homestead credit percentages and amounts.

Note that the provisions for this homestead credit are effective July 1, 2025. A LIT rate to fund this homestead credit may be imposed on the adjusted gross income of taxpayers before January 1, 2028, but will terminate and may not be imposed after December 31, 2027.

II. Local Income Tax Councils

Sections 4 through 8 of HEA 1142 amend several provisions of Ind. Code § 6-3.6-3 to extend the provisions on the allocation of votes for increasing a LIT rate in a county with a single voting bloc (defined in Ind. Code § 6-3.6-2-7.4) through May 31, 2027. Prior to HEA 1142, these provisions were set to expire on May 31, 2025. These amendments are effective upon passage.

III. Public Safety Distribution Requests, HEA 1427

Section 80 of HEA 1427 amends Ind. Code § 6-3.6-6-8(d) to provide that an application by a volunteer fire department for a public safety LIT distribution must be made to the adopting body by the fiscal officer of the unit served by the volunteer fire department. This change is effective upon passage.

Contact Information

Questions may be directed to David Marusarz, Deputy General Counsel at dmarusarz@dlgf.in.gov.