

Indiana Competiveness and Simplification Conference

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Individual Income Tax Panel

David McDaniel, CPA

Sikich, LLP - Indiana CPA Society Tax Resource Advisory Council (TRAC)

Indiana income tax challenges and simplification opportunities from a tax practitioner point of view:

Individual tax forms - too many - too complex - recent modifications to the forms lengthened the required forms and added several supplemental schedules for all returns. One of the longest state tax forms - adds to complexity and compliance issues.

Individual instructions too long - Individual instructions over 60 pages - too long - adds to complexity and compliance issues.

Nonresident shareholder withholding/Composite returns – One of the most complex states to file - almost every other state has easier processing. Was first a payroll withholding form that required INTax registration and now can be a separate new controlled tax form. There are options on how to file (confusing). Other states generally handle as a business entity level tax. This process is the biggest complaint of out of state tax preparers. Needs legislative attention to be moved out of the payroll tax section of the Indiana tax code.

Taxpayer account information with dates and type of payment made available on line - the information now available is only the payment amount with no date or type of payment listed. Estimated tax matters are one of the largest causes of income tax notices from Indiana for individuals. Better information available would improve the accuracy of returns being filed by taxpayers.

On line payment options – the ability to schedule tax payments for April 15th and estimated payments on line would be a valuable option for taxpayers to schedule their tax payments.

Credit reform - Review all Indiana credits - some are not utilized because they are very limited in nature, too difficult (or costly) to qualify for or are actually too large to be an incentive since they only offset Indiana tax and are not refundable. Consider smaller, easier to qualify for refundable credits as incentives.

Deductions, exemptions or credits for incentives - Several other states have adopted income deductions, exemptions or credits for targeted business (small, manufacturing, etc.) for tax incentives.

Too many items decoupled from Internal Revenue Code - Adds greatly to the complexity of Indiana tax and can create annual differences with federal tax for items such as depreciation (Section 179 and Bonus depreciation). Add back for non-Indiana municipal bond interest after 2011 nearly impossible to calculate.

Fraud filters – Direct communication with taxpayer to prove identity is the best way to proactively deal with issue. Holding refunds of taxpayers (usually over \$1,000) affects taxpayers that file legitimate returns with refunds and harms taxpayers that do not know to call about the status their refund. Identity theft and fraudulent returns will continue to be a significant matter in the future.

Indiana Section 529 tax credit - Great program. Confirmation of contribution before return is processed with a third party is unusual and often a burden to taxpayers.

Indiana College Credit - Good program - amount has not changed in years - increase contribution level and/or change the credit amount?

Indiana Flat Tax Rate – Easy to calculate and manage since it is a flat tax and Indiana withholding on wages usually not a problem. Withholding on pensions and annuities sometimes an issue.

County Taxes – Can be confusing. January 1st date sometimes hard to manage for taxpayers – individuals forget to change county with employer or on their tax return. Wrong County withholding often by employers and out of state employers many times will not withhold county tax at all that cause taxpayer to owe tax with return that they were not expecting.

Nexus – Situation becoming more frequent – individual telecommuting for out of state employer at home office in Indiana where the company does not have another economic nexus. Guidance and cooperation between the states would be helpful.

These comments are submitted by the Tax Resource Advisory Council of the Indiana CPA Society. However, the comments have no official status and do not represent either the approval or the disapproval of the white paper by the Society or its Board of Directors.