

DEPARTMENT OF STATE REVENUE

Information Bulletin #200
General Tax
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SUBJECT: Financial Institutions Tax

REFERENCES: [IC 6-5.5](#)

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SUMMARY OF CHANGES

Aside from technical, nonsubstantive changes, this bulletin effectively provides the same information as it had before when it was published under the title Commissioner's Directive #14, with the exception that Section VI (Computation) has been revised to reflect current law and more examples have been included.

I. INTRODUCTION

The purpose of this bulletin is to present an overview of the Indiana financial institutions tax (FIT), found in Indiana Code (IC) 6-5.5. This overview is intended to highlight the major areas of the law and promote a general understanding of its basic principles.

Any taxpayer subject to FIT is exempt from Indiana's adjusted gross income tax. The law extends Indiana's tax jurisdiction to both resident and nonresident financial institutions and to all corporate entities that transact the "business of a financial institution" in Indiana regardless of where such entity is domiciled. Further, [IC 6-5.5](#) adopts an economic presence concept for determining the jurisdictional basis for taxing nonresidents who conduct the business of a financial institution in Indiana.

II. DEFINITIONS

"Business of a financial institution" means the activities of a traditional financial institution. In addition, a corporation other than traditional financial institutions is considered to be in the "business of a financial institution" if the corporation derives 80% or more of its income (other than extraordinary income) from making, acquiring, servicing, or selling loans or extending credit.

If a transaction is treated as a lease for federal income tax purposes, the leasing transaction is not the economic equivalent of extending credit for purposes of the 80% test. However, for purposes of the 80% test, extending credit not only includes credit card operations, but also includes debit card, charge card, and similar businesses.

"Taxpayer" means regulated financial institutions, their holding companies, and the subsidiaries of either, as well as any other corporation (including entities taxed as a corporation under the Internal Revenue Code) organized under the laws of the United States, Indiana, another taxing jurisdiction, or a foreign government that is carrying on the business of a financial institution in Indiana.

A nonresident taxpayer is a corporation that is not commercially domiciled in Indiana but transacts the business of a financial institution in Indiana. [IC 6-5.5-3](#) establishes the rules for determining when the activities of nonresident corporations constitute transacting business in Indiana. A taxpayer is transacting business in Indiana for the purposes of the FIT when it satisfies any one of the following nine tests:

- (1) Maintains an office in Indiana;
- (2) Has an employee, a representative, or an independent contractor conducting business in Indiana;
- (3) Regularly sells products or services of any kind or nature to customers in Indiana that receive the product or service in Indiana;
- (4) Regularly solicits business from potential customers in Indiana;

- (5) Regularly performs services outside Indiana that are consumed within Indiana;
- (6) Regularly engages in transactions with customers in Indiana that involve intangible property, including loans, but not property described in [IC 6-5.5-3-8\(5\)](#), and result in receipts flowing to the taxpayer from within Indiana;
- (7) Owns or leases intangible personal or real property located in Indiana; or
- (8) Regularly solicits and receives deposits from customers in Indiana; or
- (9) Ownership in a partnership transacting the business of a financial institution if the partner is also conducting the business of a financial institution.

The statute employs a single-factor receipts formula to determine the percentage of the taxpayer's income that is taxable. The single-factor receipts formula is derived by dividing the gross receipts attributable to transacting business in Indiana by the taxpayer's total receipts from transacting business in all taxing jurisdictions.

"Unitary business" means business activities or operations that are of mutual benefit, dependent upon or contributory to one another, individually or as a group, in transacting the business of a financial institution. The term can be applied within a single entity or between multiple entities and without regard to whether each entity is a corporation, partnership, or trust.

"Unitary group" means those entities that are engaged in a unitary business wholly or partially within Indiana. Unity is presumed if there is unity of ownership, operation, or use as evidenced by centralized management, centralized purchasing, advertising, accounting, or other controlled interaction among entities that are members of the unitary group as defined in [IC 6-5.5-1-18\(a\)](#). In other words, members of a unitary group are limited to those members who meet the definition of "taxpayer" for purposes of [IC 6-5.5](#), excluding those not engaging in business in Indiana.

Unity of ownership exists for a corporation if it is a member of a group of two or more business entities, 50% of whose voting stock is owned by a common owner or owners or by one or more of the member corporations of the group.

III. TAX RATE

The tax rate for the FIT is 8.5% for taxable years beginning before Jan. 1, 2014. However, the rate decreases in the following manner for the following time periods:

- For taxable years beginning after Dec. 31, 2013, and before Jan. 1, 2015, the rate is 8.0%.
- For taxable years beginning after Dec. 31, 2014, and before Jan. 1, 2016, the rate is 7.5%.
- For taxable years beginning after Dec. 31, 2015, and before Jan. 1, 2017, the rate is 7.0%.
- For taxable years beginning after Dec. 31, 2016, and before Jan. 1, 2019, the rate is 6.5%.
- For taxable years beginning after Dec. 31, 2018, and before Jan. 1, 2020, the rate is 6.25%.
- For taxable years beginning after Dec. 31, 2019, and before Jan. 1, 2021, the rate is 6.0%.
- For taxable years beginning after Dec. 31, 2020, and before Jan. 1, 2022, the rate is 5.5%.
- For taxable years beginning after Dec. 31, 2021, and before Jan. 1, 2023, the rate is 5.0%.
- For taxable years beginning after Dec. 31, 2022, the rate is 4.9%.

IV. EXEMPTIONS AND EXCLUSIONS

Five specific types of corporations are exempted from the financial institutions tax:

- Insurance companies subject to the tax under [IC 27-1-18-2](#) or [IC 6-3](#);
- A captive insurer subject to taxation under [IC 27-1-2-2.3](#);
- International banking facilities (as defined in Regulation D of the Board of Governors of the Federal Reserve System);
- Any corporation that is exempt from income tax under Section 1363 of the Internal Revenue Code; and
- Nonprofit corporations.

An exclusion is also provided for those financial institutions whose Indiana activities are limited to certain activities. These activities include owning an interest in the following types of property, including those activities within Indiana that are reasonably required to evaluate and complete the acquisition or disposition of the property, the servicing of the property or the income from the property, the collection of income from the property, and the acquisition or liquidation of collateral relating to the property:

- An interest in a real estate mortgage investment conduit (REMIC), a real estate investment trust (REIT), or

- a regulated investment company (as those terms are defined in the Internal Revenue Code);
- An interest in a loan-backed security representing ownership or participation in a pool of promissory notes or certificates of interest that provide for payments in relation to payments or reasonable projections of payments on the notes or certificates;
- An interest in a loan or other asset in which the interest is attributed in [IC 6-5.5-4-4](#), [IC 6-5.5-4-5](#), and [IC 6-5.5-4-6](#) and in which the payment obligations were solicited and entered into by a person who is independent and not acting on behalf of the owner;
- An interest in the right to service or collect income from a loan or other asset from which interest on the loan or other asset is attributed in [IC 6-5.5-4-4](#), [IC 6-5.5-4-5](#), and [IC 6-5.5-4-6](#) and in which the payment obligations were solicited and entered into by a person who is independent and not acting on behalf of the owner; and
- An amount held in an escrow or a trust account with respect to property described in this subdivision.

V. COMBINED RETURNS

A taxpayer is allowed to file a separate return only in those instances where the taxpayer is not a member of a unitary group. If the taxpayer is a member of a unitary group, combined reporting is mandatory. However, if the taxpayer determines that its Indiana income is not accurately reflected by the filing of a combined return, the taxpayer may petition the department by indicating on its annual return that the return is a separate return made by a member of a unitary group. Such petition is subject to approval by the department.

All taxpayers that are part of a unitary group must be included in one combined return. The statute requires that the combined return include the adjusted gross income of all members of the group that are transacting business of a financial institution wholly or partially within Indiana. The statute provides an exclusion for the income of corporations or other entities organized in foreign countries, except a federal or state branch of a foreign bank or its subsidiary that transacts business in Indiana. In other words, combined reporting is on a "water's edge" basis.

VI. COMPUTATION

Taxpayers, with the exception of credit unions and investment companies, compute the FIT as follows:

| | |
|---|-------|
| Federal taxable income (IRC Section 63) | _____ |
| A. Add the amount of deductions/ losses included in federal income tax return not allowed on the Indiana return: | _____ |
| (1) Net operating losses (NOL) | _____ |
| (2) Net capital losses | _____ |
| (3) Bad debt deductions | _____ |
| (4) Recovered bad debts deducted from gross income (except for large banks) | _____ |
| (5) Charitable contributions | _____ |
| (6) State and local income and franchise taxes | _____ |
| (7) Add or subtract the amount necessary to make the adjusted gross income of any taxpayer equal to the amount computed as if bonus depreciation under Section 168(k) of the Internal Revenue Code (IRC) had been disallowed (See Income Tax Information Bulletin #118 for special rules applicable to certain like-kind exchanges) | _____ |
| (8) Add or subtract the amount necessary to make the adjusted gross income of any taxpayer computed as if the limitation under Section 179 of the IRC concerning business expense deductions was \$25,000 (See Income Tax Information Bulletin #118 for special rules applicable to certain like-kind exchanges) | _____ |
| (9) Add or subtract the amount necessary to make the adjusted gross income of any taxpayer that claimed the special allowance for qualified disaster assistance property under Section 168(n) of the IRC* | _____ |
| (10) Add or subtract the amount of qualified refinery property that was expensed under Section 179C of the IRC* | _____ |
| (11) Add or subtract the amount of qualified expenses for a qualified film or television production under Section 181 of the IRC* | _____ |
| (12) Add or subtract the amount necessary to make the adjusted gross income of any taxpayer that treated a loss from the sale or exchange of preferred stock in: | _____ |

| | | |
|---------|--|---------|
| | (i) the Federal National Mortgage Association; or | |
| | (ii) the Federal Home Loan Mortgage Corporation; | |
| | as an ordinary loss under Section 301 of the Emergency Economic Stabilization Act of 2008 in the current taxable year or an earlier taxable year equal to the amount of adjusted gross income that would have been computed had the loss not been treated as an ordinary loss* | _____ |
| | (13) An amount equal to any exempt insurance income under Section 953(e) of the IRC | _____ |
| | B. Interest income on state and municipal obligations not included in federal taxable income net of associated expenses | _____ |
| DEDUCT: | A. Income not subject to tax under the U.S. Constitution or federal statutes | (_____) |
| | B. Net income derived from sources outside the United States pursuant to the IRC (if negative, in effect add back the negative amount <i>[sic]</i>) | (_____) |
| | C. Bad debts actually charged off | (_____) |
| | D. Associated expenses to carry state and municipal obligations (IRC Section 265) | (_____) |
| | E. Bad debt reserve transition adjustment included in federal taxable income because of a tax accounting method change | (_____) |
| | F. Qualified patent income | (_____) |
| | G. Capital contributions from governments or civic groups. | (_____) |
| | Indiana adjusted gross income | ===== |
| | Apportionment factor: | |
| | Receipts attributable to Indiana | |
| | Total receipts | =_____% |
| | Indiana apportioned income | _____ |
| DEDUCT: | ** Indiana net operating losses (NOL) | (_____) |
| | ***Indiana net capital losses (deductible to the extent of net capital gains) | (_____) |
| | Indiana taxable income | _____ |
| | Multiplied by the appropriate tax rate | |
| | Tax before credits | _____ |
| | **** Less: Nonresident taxpayer's credit | (_____) |
| | Indiana financial institutions tax liability | ===== |

*Not applicable if the first year for the addback or deduction begins after Dec. 31, 2015.

**Indiana's net operating loss (NOL) for the taxpayer is multiplied by the apportionment factor. If there is negative taxable income when the FIT income is determined, the same may be carried forward. Such carryforward may be carried forward 15 years. Losses are not carried back. The loss must be allocated to the members of a unitary group in proportion with their respective Indiana receipts for the taxable year in which the loss is incurred. In applying the loss, the positive income must be allocated to the members of a unitary group in proportion with their respective Indiana receipts for the taxable year in which the income is earned.

For instance, assume a unitary group has a \$100,000 Indiana net operating loss in 2019. Member A has \$600,000 (60%) of Indiana receipts in 2019 and Member B has \$400,000 (40%) of Indiana receipts for a total of \$1,000,000 in Indiana receipts. Member A has \$60,000 ($600,000/1,000,000 \times 100,000$) of the net operating loss and Member B has \$40,000 ($400,000/1,000,000 \times 100,000$) available for future use.

In 2020, a new corporation, Member C, joins the group and has \$100,000 of Indiana adjusted gross income after apportionment. Member A has \$400,000 of Indiana receipts for 2020, Member B has \$500,000 of Indiana receipts, and Member C has \$100,000 of Indiana receipts for a total of \$1,000,000 in Indiana receipts. Member A is allocated \$40,000 ($400,000/1,000,000 \times 100,000$) of income against which to apply its net operating loss. The group can use \$40,000 of Member A's allocated net operating loss in 2020 and has \$20,000 for future use against Member A's income. The group must use the \$40,000 net operating loss from Member B against Member B's \$50,000 ($500,000/1,000,000 \times 100,000$) allocated income, leaving \$10,000 of adjusted gross income subject to

tax. Member C has no net operating losses against which to offset its \$10,000 (100,000/1,000,000 X 100,000) of adjusted gross income.

***A taxpayer's Indiana net capital loss for the taxable year equals the taxpayer's net capital losses for the taxable year minus the net capital gains for the year multiplied by the apportionment percentage applicable to the taxpayer under [IC 6-5.5-2](#) for the taxable year of the loss. A net capital loss for a taxable year may be carried forward to each of the 5 succeeding taxable years. Similar to net operating losses, a net capital loss must be allocated to the members of a unitary group in proportion with their respective Indiana receipts for the taxable year in which the loss is incurred. In applying the loss, the capital gains must be allocated to the members of a unitary group in proportion with their respective Indiana receipts for the taxable year in which the gain is earned.

****A nonresident taxpayer is entitled to a credit against the tax due under this article for the amount of net income tax due to the nonresident taxpayer's domiciliary state for a taxable year if:

- The receipt of interest or other income from a loan or loan transaction is attributable both to the taxpayer's domiciliary state under that state's laws and also to Indiana under [IC 6-5.5-4](#); and
- The principal amount of the loan is at least \$2,000,000.
- The amount of the credit for each taxable year is the lesser of:
- The portion of the net income tax actually paid by the nonresident taxpayer to its domiciliary state that is attributable to the loan or loan transaction; or
- The portion of the FIT due to Indiana under this article that is attributable to a loan or loan transaction. The amount of tax attributable to a loan or loan transaction is the portion of the total tax due to each state in an amount equal to the same proportion as the receipts from the loan or loan transaction bear to the taxpayer's total receipts.

In the case of a credit union, "adjusted gross income" for a taxable year means the total transfers to undivided earnings minus dividends for that taxable year after statutory reserves are set aside under [IC 28-7-1-24](#), multiplied by their apportionment factor.

In the case of an investment company, "adjusted gross income" means the company's federal taxable income plus the amount excluded from federal gross income under Section 103 of the Internal Revenue Code for interest received on an obligation of a state other than Indiana, or a political subdivision of such a state, that was acquired by the taxpayer after Dec. 31, 2011, multiplied by the quotient created by:

- The aggregate of the gross payments collected by the company during the taxable year from old and new business upon investment contracts issued by the company and held by a resident of Indiana; divided by
- The total amount of gross payments collected during the taxable year by the company from the business upon investment contracts issued by the company and held by persons residing within Indiana and elsewhere.

VII. FEDERAL ALTERATION OR MODIFICATION OF A FEDERAL RETURN

The taxpayer is required to notify the department within 180 days after the alteration or modification. A modification or an alteration occurs on the date on which a:

- Taxpayer files an amended federal income tax return;
- Final determination is made concerning an assessment;
- Final determination is made concerning a claim for refund;
- Taxpayer waives the restrictions on assessment and collection of all, or any part, of an underpayment of federal income tax;
- Taxpayer enters into a closing agreement with the Internal Revenue Service concerning the taxpayer's tax liability under Section 7121 of the IRC that is a final determination; or
- Modification or an alteration in an amount of tax is otherwise made that is a final determination;

for a taxable year, regardless of whether a modification or an alteration results in an underpayment or overpayment of tax.

A final determination means an action or a decision by a taxpayer, the Internal Revenue Service, the United States Tax Court, or any other U.S. federal court concerning any disputed tax issue that is final and conclusive and cannot be reopened or appealed by a taxpayer or the Internal Revenue Service as a matter of law.

The taxpayer is required to file an amended Indiana FIT return and a copy of the amended federal income tax return with the department no later than the date that is 180 days after the modification or alteration is made.

VIII. PAYMENT OF THE TAX

The FIT is payable directly to the department. Quarterly estimated payments are required if the taxpayer's annual liability exceeds \$2,500. If the taxpayer's quarterly estimated payments exceed \$5,000, the estimated payment must be made by electronic funds transfer. A taxpayer can use the department's payment portal, INTIME, to make estimated payments for financial institutions tax.

Adam J. Krupp
Commissioner

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