DEPARTMENT OF STATE REVENUE

Information Bulletin #92
Income Tax
December 2022
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SUBJECT: Individual Earned Income Tax Credit (EITC) Procedures

REFERENCES: IC 6-3.1-21

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SUMMARY OF CHANGES
Aside from nonsubstantive, technical changes, this bulletin has been changed to update the procedures and substantive information concerning the Indiana earned income tax credit that have been enacted statutorily since the last update of this bulletin.

INTRODUCTION
The calculation of the earned income tax credit (EITC) changed for the 2011 tax year. The purpose of this bulletin is to explain the calculation of the EITC for the 2011 and subsequent tax years.

CALCULATION OF THE EARNED INCOME TAX CREDIT
Beginning with the 2011 tax year, the Indiana EITC is to be calculated based on Section 32 of the Internal Revenue Code as it existed before being amended by the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (P.L. 111-312). P.L. 111-312 extended expiring provisions that were contained in Section 32 of the Internal Revenue Code. Because Indiana's EITC is now always based on Section 32 of the Internal Revenue Code as it existed prior to the amendments in P.L. 111-312, Indiana does not recognize extensions contained in P.L. 111-312. Those provisions include the following:

- only two or more children instead of three or more children will be considered when calculating the maximum credit;
- there is no longer a differentiation between a single and joint return when calculating the amount of the credit;
- modified adjusted gross income will be considered in addition to earned income; and
- the alternative minimum tax subtract-off that had been removed will be reinstated for purposes of calculating the Indiana EITC.

In addition, Indiana does not recognize the amendments to the federal earned income tax credit enacted in 2021, which includes:

- the allowance for the credit for childless individuals under 25 or over 64 for calendar year 2021;
- the increased phase-in and phase-out amounts, as well increased phase-in and phase-out percentages, for calendar year 2021;
- the allowance for an earned income credit for individuals who had no qualifying child with a federal identification number;
- the allowance for married individuals filing separately to claim the credit under certain circumstances; and
- the increase in disqualifying investment income from $2,200 ($3,800 for 2022) to $10,000 (with inflation adjustments after 2021).

The Indiana credit amount remained equal to 9% of the amount of the federal EITC that the individual was eligible to receive and claim for the taxable year. As of the 2022 tax year, that amount increased to 10% of the amount of the federal EITC.

Further, Indiana followed the election allowed by the Bipartisan Budget Act to permit using the prior-year earned income for purposes of determining the earned income tax credit. This election was only available for tax years ending in 2017 or, in rare cases, 2018. However, Indiana does not permit the election available for later tax years to use prior-year earned income for purposes of determining the earned income tax credit, nor does Indiana permit this relief granted under other federal acts.

The minimum earned income amounts and phaseout threshold amounts for the Indiana EITC are subject to the same cost of living adjustments provided in the Internal Revenue Code. In other words, Indiana follows the chained consumer price index adjustments required under federal law as opposed to unchained consumer price index adjustments in effect prior to 2017.

More information concerning the calculation of the credit can be found in the IT-40 individual income tax instruction booklet. The current-year booklet can be accessed online at in.gov/dor/tax-forms/individual-income-tax-forms/ and then by clicking on the Current Year Tax Forms link at that web address.

PART-YEAR RESIDENT

A taxpayer residing in Indiana for less than the taxpayer's entire taxable year is entitled to an apportioned earned income tax credit. The amount of the credit is figured the same way a full-year resident's credit is figured and then it multiplied by the result of the taxpayer's Indiana income divided by the taxpayer's total income.

If the credit amount exceeds the taxpayer's actual tax liability for the taxable year, the excess credit shall be refunded to the taxpayer.

If you have any questions concerning this bulletin, please contact the Tax Policy Division at taxpolicy@dor.in.gov.

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Commissioner

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