

DEPARTMENT OF STATE REVENUE

Information Bulletin #117
Income Tax
January 2024
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(Replaces Bulletin #117, dated April 2023)

SUBJECT: Personal Exemptions and Special Rules

REFERENCES: HEA 1316-2018(ss); SEA 2-2022(ss); HEA 1001-2023; [IC 6-3-1-3.5](#); IRS Publication 501 (2017); IRS Publication 519 (2017)

DISCLAIMER: Information bulletins are intended to provide nontechnical assistance to the general public. Every attempt is made to provide information that is consistent with the appropriate statutes, rules, and court decisions. Any information that is not consistent with the law, regulations, or court decisions is not binding on either the department or the taxpayer. Therefore, the information provided herein should serve only as a foundation for further investigation and study of the current law and procedures related to the subject matter covered herein.

SUMMARY OF CHANGES

Other than non-technical changes, this bulletin has been updated to reflect an inflation adjustment for maximum income allowable for certain dependents and to include information relating to the new additional exemption for certain qualifying children.

INTRODUCTION

Prior to 2018, Indiana followed the federal definition of dependent exemptions and tied its instructions to the federal Form 1040 variants. With the Tax Cut and Jobs Act of 2017, beginning with tax year 2018, the dependent exemption deductions for federal purposes have been reduced to zero.

HEA 1316-2018(ss) tied Indiana's dependent and certain other exemptions to the Internal Revenue Code as in effect on Jan. 1, 2017. This bulletin provides guidance on both dependent exemptions and various other exemptions available for individual filers.

Except as specifically noted, any dollar amount quoted is the full amount of the exemption and is subject to proration if an individual and/or the individual's spouse is not an Indiana resident.

This bulletin also contains various references and links to federal publications. Any reference to the federal publication is to specifically-referenced sections of the publication.

YOU AND YOUR SPOUSE

Any individual filing an Indiana tax return may claim a \$1,000 exemption for themselves. This exemption is available even if the individual can be claimed as a dependent on another taxpayer's return. In addition, an individual can claim a second \$1,000 exemption for the individual's spouse if the individual is married and files a joint Indiana tax return with their spouse.

Also, an individual who is married filing separately can claim a \$1,000 exemption for the individual's spouse if (and only if) the spouse has no federal adjusted gross income. If an individual who is married filing separately is claiming an exemption for a spouse with no adjusted gross income, the spouse should be listed as a dependent.

DEPENDENTS

A taxpayer is permitted \$1,000 for each of the taxpayer's dependents. For Indiana purposes, the relationships and other applicable tests for determining whether a person qualifies as a dependent are determined under 2017 federal guidelines.

A taxpayer is permitted an exemption for each "qualifying child." This is not to be confused with a child qualifying for the Extra Exemption discussed below. To be treated as a qualifying child for pre-2018 federal tax purposes, the child generally must meet **all** of the following:

- (1) The child passes certain relationship tests (child, stepchild, sibling, stepsibling, or their descendants). Adopted children and eligible foster children are considered to be natural relatives for these purposes.
- (2) The child must have the same principal place of abode for more than one-half of the taxable year.
- (3) The child must be either (a) 19 years or younger, (b) 24 years or younger and a full-time student for at

least five months during the year, or (c) any age, if the child is permanently and totally disabled.

- (4) The child must be younger than the taxpayer. In the case of a joint return, the child must be younger than one of the spouses.
- (5) The child did not provide more than one-half of the child's support for the calendar year.
- (6) The child did not file a joint federal return with the child's spouse, except to claim a refund of estimated taxes or withheld taxes.

Other individuals also may be treated as a dependent eligible for exemption during the taxable year. These individuals include:

- (1) Children and the descendants of children who do not meet the definition of a "qualifying child." This includes stepchildren, adopted children, and qualifying foster children. However, the term does not include siblings and their descendants.
- (2) Siblings and stepsiblings
- (3) Parents and their ancestors
- (4) Stepparents
- (5) Children of siblings (nephews and nieces)
- (6) Siblings of parents (aunts and uncles)
- (7) Spouses of children, parents, and siblings
- (8) Any other individual, other than the taxpayer's spouse, who had the same principal place of abode as the taxpayer and who was a member of the taxpayer's household for the entire taxable year.

In addition, an individual listed in the eight categories above cannot have gross income equal to or more than the dependent exemption as it existed under 2017 federal law (\$4,700 for 2023 after inflation adjustments). Also, the individual cannot file a joint federal return with the individual's spouse except to claim a refund of estimated taxes or withheld taxes. Further, the taxpayer must provide more than half of the individual's support during the taxable year. Finally, the individual must not be the qualifying child of any other taxpayer during the taxable year.

Please refer to the 2017 version of IRS Publication 501, "Exemption for Dependents," available at irs.gov/pub/irs-prior/p501--2017.pdf, for further information about 2017 federal dependent rules and special situations. For special rules relating to dependent exemptions for certain aliens, please refer to the 2017 version of IRS Publication 519, "U.S. Tax Guide for Aliens," chapter 5, available at irs.gov/pub/irs-prior/p519--2017.pdf.

However, there are two differences between IRS Publication 501 (2017) and Indiana law. First, for the "Gross Income Test," a dependent's 2023 federal gross income must be less than \$4,700 rather than \$4,050. The amounts for subsequent years will be published in the annual Forms IT-40 and IT-40PNR instruction booklets. Second, the Indiana exemptions do not phase out with an increase in income.

EXTRA EXEMPTION FOR CERTAIN QUALIFYING CHILDREN

A taxpayer is also permitted a \$1,500 exemption for children as defined under IRC § 151(c)(1)(B) as it was in effect on Jan. 1, 2004. This provision was repealed in federal law; however, Indiana has retained the relevant definition.

The child must be a son, stepson, daughter, or stepdaughter of the taxpayer or an individual under the guardianship of the taxpayer. Adopted children are treated as natural children of the adoptive parent(s).

For purposes of this exemption, foster children who live with the taxpayer for the entire year are treated as natural children of the taxpayer. Thus, certain foster children eligible for the regular dependent deduction will not be eligible for the extra exemption. However, for taxable years prior to 2020, foster children will be treated as natural children of the taxpayer if they resided with the taxpayer for more than half the year.

In addition, for taxable years beginning in 2018, the exemption is available for dependents who are under the guardianship of the taxpayer and who meet one of two age tests set forth below. Further, the child must meet the definition of a dependent for purposes of Section III.

If a child fails to meet the general dependent tests in Section III, the child is not eligible for the extra exemption.

Absent a guardianship or meeting the criteria for a foster child above, siblings, stepsiblings, nephews, nieces, etc., do not qualify for this exemption, even if the individual would be considered a qualifying child for federal purposes. Also, although a permanently and totally disabled child under IRC § 152(c)(3)(B) meets the definition of a qualifying child for federal tax purposes regardless of age, the child will not qualify for the \$1,500 exemption unless one of the two age tests are met as specified below.

- The first age test is that the child is under the age of 19 at the end of the taxable year.
- The second age test is that the child be both under the age of 24 at the end of the taxable year and a full-time student for at least five months during the taxable year. A child who does not meet either of the age tests is not eligible for the \$1,500 exemption.

SPECIAL RULE FOR FIRST-YEAR QUALIFYING CHILDREN

Beginning in 2023, a taxpayer is permitted an exemption of \$3,000 for a child who qualifies for the first time for the extra exemption for certain qualifying children. This \$3,000 is the exemption instead of the \$1,500 exemption available.

For a child to qualify for the exemption, the child must meet the qualifications for the \$1,500 exemption immediately above. In addition, the child must be eligible for the exemption for any taxpayer for the first time. A child is not eligible for the \$3,000 if any of the following are true:

- The taxpayer previously claimed a \$1,500 exemption for the child.
- The taxpayer was eligible to claim the child but did not file a return for any reason, including:
 - Not having enough income to file a return,
 - Being a nonresident without Indiana source income, or
 - Failing to file a return in a timely manner.
- The child was claimed previously or could have been claimed previously as a qualifying child by another taxpayer.

Example #1: Child 1 was born in 2022 and claimed as a qualifying child in 2022 by Parent A. Parent B is entitled to claim Child 1 in 2023. Parent B is not permitted the \$3,000 exemption because the child was a first-time qualifying child in 2022.

Example #2: Child 1 was born in 2022. Parent A lived in Illinois in 2022 and had no Indiana-source income for 2022. Parent A cannot claim the \$3,000 exemption in 2023 because the child was a first-time qualifying child in 2022.

Example #3: Child 1 was born in 2020. Child 1 was immediately placed in foster care and did not remain with foster parents for a full taxable year before 2023. Parent A adopted Child 1 in 2023. Parent A is entitled to claim the \$3,000 first-time qualifying child exemption because the child was never eligible to be claimed as a qualifying child by the foster parents. Child 1 did not live for a full year with any parent as a foster child and thus was not a qualifying child.

EXTRA EXEMPTION FOR ADOPTED CHILDREN

If the taxpayer and/or the taxpayer's spouse has adopted a child, the child qualifies as a dependent of the taxpayer, and the child is either:

- (1) under the age of 19 at the end of the taxable year, or
- (2) under the age of 24 at the end of the taxable year and a full-time student for at least five months during the taxable year.

A taxpayer is also permitted a \$3,000 exemption per adopted child starting in 2022 under SEA 2-2022(ss). This exemption is in addition to the exemptions otherwise provided for the child. To qualify for this exemption, an adoption must be finalized before the end of the taxable year. This exemption applies to children adopted before 2022 as well as children adopted in 2022 and later.

This exemption is available only if the child is claimed as a dependent on the return filed on behalf of the adoptive parent. If a child is adopted by only one parent, the parent who did not adopt the child may not claim the additional adopted child exemption except on a joint return filed with a spouse who is an adoptive parent.

Example #4: Spouse 1 has a biological child; Spouse 2 is not the biological parent. After Spouse 1 and Spouse 2 marry, Spouse 2 adopts the child. Assume for 2023 and 2024 that the child meets the dependent and age requirements for the additional adopted child exemption.

For 2023, Spouse 1 and Spouse 2 file a joint tax return. They are permitted to claim the \$3,000 additional adopted child exemption because Spouse 2 is an adoptive parent of the child.

For 2024, Spouse 1 and Spouse 2 do not file a joint return. Spouse 1 claims the child as a dependent. Spouse 1 may not claim the \$3,000 additional adopted child exemption because Spouse 1 is not an adoptive parent of the child. Spouse 2 may not claim the \$3,000 additional adopted child exemption because the child

is not a dependent of Spouse 2.

65 AND OLDER AND/OR BLIND ADDITIONAL EXEMPTION

If the taxpayer or the taxpayer's spouse qualifies for an additional federal exemption based on being 65 or older or blind (or both) at the end of the taxable year, the taxpayer is eligible for an additional \$1,000 exemption for each additional federal exemption allowable. Indiana law directly references federal law as in effect in 2017, and therefore permits a taxpayer to claim both exemptions for an individual if that individual is both 65 or older and blind.

SPECIAL EXEMPTION FOR CERTAIN INDIVIDUALS 65 AND OLDER

If the taxpayer (or the taxpayer's spouse if filing a joint return) is 65 or older at the end of the taxable year and has a federal adjusted gross income of less than \$40,000, the taxpayer is eligible for an additional \$500 exemption for the taxpayer or taxpayer's spouse. The individual for whom the additional exemption is claimed must be 65 or older. If the taxpayer is 65 or older and the spouse is under 65, only one \$500 exemption can be claimed. In addition, if the taxpayer is married and filing a return separate from the taxpayer's spouse, the federal adjusted gross income of the taxpayer claiming this exemption must be less than \$20,000 as opposed to \$40,000.

VERIFICATION OF DEPENDENT EXEMPTIONS

If you are claiming an exemption for a particular individual, you must provide that individual's date of birth and federal taxpayer identification number (TIN). This is the individual's Social Security number (SSN) if the individual has been provided one. The SSN provided for a dependent must match the name on record with the Social Security Administration. If the individual has not been permitted to receive a SSN, the taxpayer must provide the individual's TIN or Adoption Taxpayer Identification Number (ATIN) in order to claim the exemption. If the taxpayer claims an exemption for a dependent and does not provide a date of birth and federal TIN for the dependent, the exemption will be disallowed.

Notwithstanding the above, if an individual would have been required to obtain a TIN under pre-2018 IRS procedures but is not required under post-2017 procedures, you may have to provide the information that would have been required for the IRS under pre-2018 procedures in order to obtain a TIN. This also applies to TINs that expire in 2018 or later. A return claiming a dependent deduction without an appropriate identification number for that dependent must be filed on paper until further notice.

PRORATION FOR NONRESIDENTS

If an individual (or the individual's spouse) is a nonresident of Indiana for any portion of the taxable year, the individual is required to prorate the exemptions otherwise allowable. The amount of the exemptions allowable is the ratio of federal adjusted gross income attributable to Indiana to total federal adjusted gross income, multiplied by the otherwise allowable amounts of exemptions. In the case of a married couple filing jointly, the Indiana adjusted gross income and federal adjusted gross income amounts must be computed on a combined basis. However, the ratio will never exceed one (1). In the case of a positive Indiana adjusted gross income but negative or zero federal adjusted gross income, the ratio will equal one (1).

For purposes of computing this exemption, the modifications specified under [IC 6-3-1-3.5\(a\)](#) are not considered.

In addition, in the case of nonresidents whose income is wholly or partially from state income taxed under a reciprocity agreement under [IC 6-3-5-1](#), the portion of income not taxed because of the reciprocity agreement is not considered Indiana adjusted gross income for purposes of computing the exemption. This is true even if the income exempt for state purposes is subject to local income tax under [IC 6-3.6](#). Further, a separate prorated exemption is not computed for local income tax purposes.

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

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