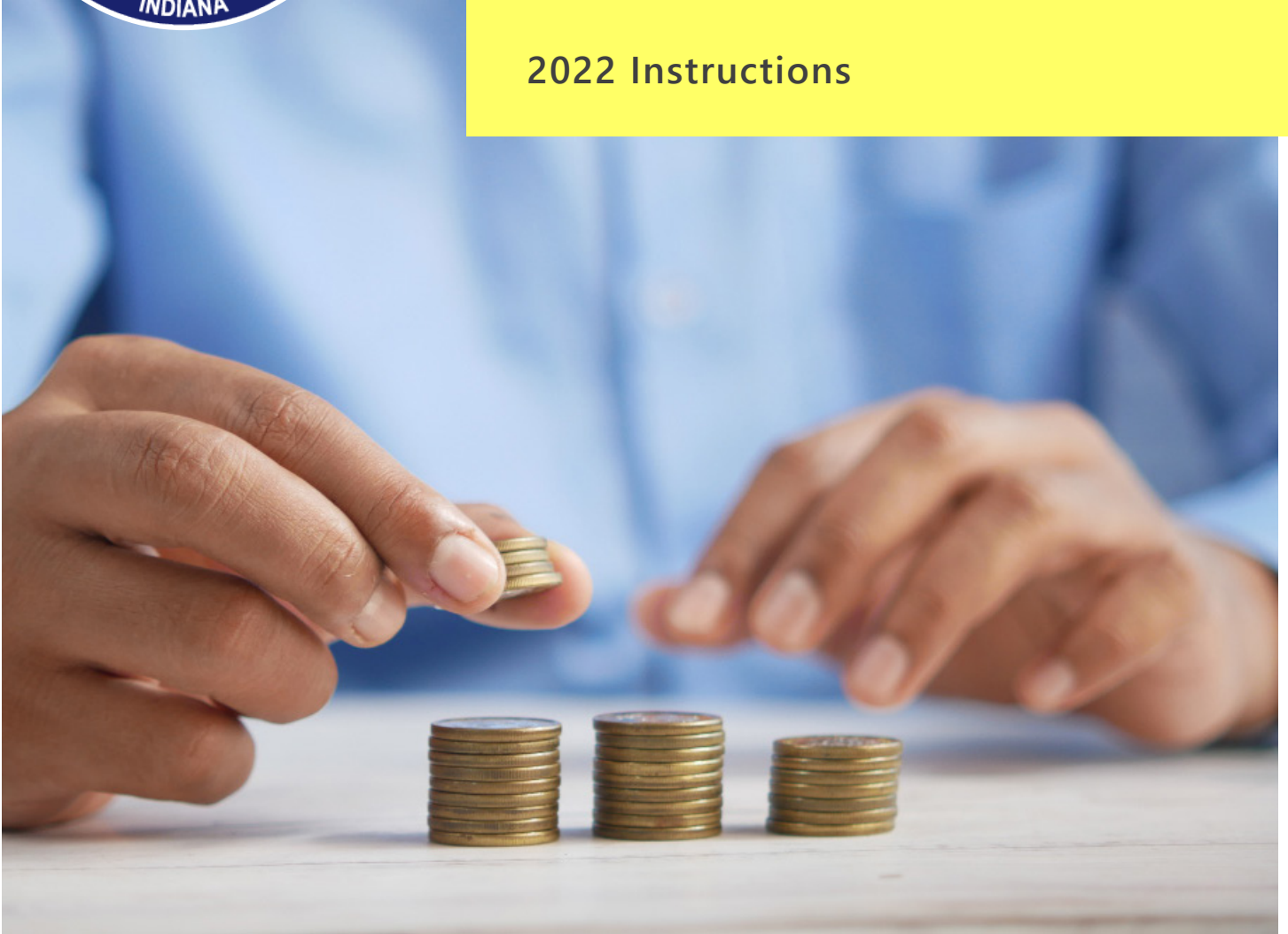




# 2022 Pass Through Entity Tax Instructions

2022 Instructions



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# Table of Contents

How to Make the Election .....	2
Tax Return and Extension.....	2
Making 2022 Pass Through Entity Tax Payments .....	2
Making Estimated Tax Payments.....	3
Withholding Requirements with Pass Through Entity Tax .....	4
Calculating the Tax .....	4
Example 1: Determining Indiana-Sourced Income in a Single-Tiered Structure.....	5
Example 2: Determining Indiana-Sourced Income in a Multi-Tiered Structure.....	5
Partnership A's Computation of Income Attributable to Indiana .....	6
Partnership B's Partners' Computation of Income Attributable to Indiana.....	7
Reporting Income and Tax on Schedule Composite & Schedule Composite-COR.....	7
Paper Returns.....	7
Electronic Returns.....	7
Computation Codes 1-3 .....	8
Computation Codes 4-6 .....	8
Computation Codes 7-12 .....	10
Reporting Pass Through Entity Tax .....	12
Claiming Credits for Indiana Pass Through Entity Tax Paid .....	12
Additional Resources.....	13
Contact Us.....	13

# How to Make the Election

The annual election to opt into the Indiana Pass Through Entity Tax **must be made on an annual basis on the IN-PTET form** prescribed by the Indiana Department of Revenue. Starting with tax years beginning after Dec. 31, 2022, the election may also be made on the entity's annual return.

The **election is irrevocable** and must be made by an authorized person from the eligible electing entity. An authorized person is any individual with the authority from the electing entity to bind the electing entity or sign returns on its behalf. The form can be signed either by traditional signature or by electronic signature. Electing entities must list resident and nonresident entity owners on Schedule Composite and, if applicable, Schedule Composite-COR.

For tax year 2022, the election must be made **after** March 31, 2023, **and before** Aug. 31, 2024. If the 2022 return was filed by April 18, 2023, a pass-through entity can amend their return to reflect the election. For 2023 and tax years thereafter, the election may be made at any time during the taxable year or before filing the entity's return; or the election may be made after the taxable year on the entity's timely filed return, including extensions.

For tax year 2022 elections, you must submit the Form IN-PTET by mail to the address listed on the Form IN-PTET or by email to [ptetelectionform@dor.in.gov](mailto:ptetelectionform@dor.in.gov).

# Tax Return and Extension

The Pass Through Entity Tax shall be due on the same date as the entity's annual return for the taxable year, without regard to extensions. On its return for the taxable year, the electing entity shall attach a schedule showing the calculation of the tax and the credit for each entity owner, and remit the tax with the return, taking into account prior estimated tax payments remitted by the electing entity, along with other payments that are credited to the electing entity as tax paid or withheld.

For tax years beginning in 2022, the Pass Through Entity Tax will be reported on the entity's composite schedule.

If the 2022 return is filed by April 18, 2023, a pass-through entity can amend their return to make the election through Aug. 30, 2024.

# Making 2022 Pass Through Entity Tax Payments

If you are making a Pass Through Entity Tax payment for the 2022 tax year, the payment of pass through entity tax is due on the same due date as regular withholding/composite payments. For tax years ending on December 31, 2022, the payment is due April 18, 2023. However, if the payment is remitted after the due date but before August 31, 2024, no penalties or interest are due on the unpaid balance of Pass Through Entity Tax.

The payment for Pass Through Entity Tax can be submitted in the same manner as nonresident withholding tax payments for the partnership or S corporation. Please see the instructions for Form IT-20S or Form IT-65 for further information on submitting nonresident withholding tax payments.

If you are paying both nonresident withholding tax and Pass Through Entity Tax, any withholding tax that would have been due absent the Pass Through Entity Tax will be reduced by the Pass Through Entity Tax. However, the extended period for Pass Through Entity Tax payments does not apply to any remaining withholding tax due. Further, any remaining withholding tax will be subject to interest and penalties if not paid by the return deadline.

If you are paying Pass Through Entity Tax via INTIME, see the following resources on the DOR's website for making a payment on INTIME:

- [INTIME resources and guides](#)
- [INTIME User Guide for Business Customers pages 23-25](#)
- [Make a Bill Payment Without Logging in to INTIME](#)
- [INTIME Guide to Making a Tax Return Payment](#)

## Making Estimated Tax Payments

For taxable years ending on or before June 30, 2023, an electing entity is **not required** to make estimated tax payments. For taxable years **ending after** June 30, 2023, and **on or before** Dec. 31, 2024, an electing entity shall make a single estimated tax payment for the taxable years on or before the end of the taxable year. Estimated payments must be made with Form IT-6WTH.

There is no penalty for underpayment of estimated tax, except to the extent the underpayment fails to equal or exceed 50% of the tax imposed for the taxable year in the case of taxable years ending after June 30, 2023, and on or before Dec. 31, 2024. For these periods, do not self-assess an estimated tax penalty. DOR will compute the estimated tax penalty and issue any billing.

For taxable years ending after Dec. 31, 2024, there shall be no penalty for underpayment of estimated tax, except to the extent the payments during the taxable year fail to equal or exceed the lesser of 80% of the tax imposed for the taxable year or 100% of the tax imposed for the preceding taxable year.

# Withholding Requirements for Pass Through Entity Tax

If an entity elects to be subject to the Pass Through Entity Tax for a partner or shareholder or treats Pass Through Entity Tax paid by another entity as Pass Through Entity Tax to its direct owners, the entity is still subject to withholding tax on those owners. However, any withholding tax required for the owners is reduced dollar-for-dollar by the Pass Through Entity Tax credited to that owner.

For example, if a partnership has two equal partners—Individual A and Corporation B, a C corporation—and the partnership has \$20,000 of Indiana adjusted gross income, the partnership will pay \$323 of Pass Through Entity Tax **for each partner**. However, Corporation B would have had withholding tax of \$490 without an election. The partnership is still required to pay \$167 (\$490 minus \$323) in withholding tax in addition to the Pass Through Entity Tax.

If an entity pays or is credited with both Pass Through Entity Tax and withholding tax, any payments of tax will be attributed first to Pass Through Entity Tax, then to withholding tax. Any penalties and safe harbors for withholding tax shall be determined after the application of the Pass Through Entity Tax.

## Calculating the Tax

On its return for the taxable year, the electing entity must attach a Schedule Composite and, if applicable, Schedule Composite-COR, showing the calculation of the tax and the credit available to each direct owner and remit the tax with the return, taking into account prior estimated tax payments by the electing entity along with other payments that are credited to the electing entity as tax paid or withheld.

The adjusted gross income of the electing entity shall be the aggregate of the direct owners' share of the electing entity's adjusted gross income. The electing entity shall determine each nonresident direct owner's share after allocation and apportionment. Each resident direct owner's share can be determined either before or after allocation and apportionment at the discretion of the electing entity. The electing entity must use the same method for all resident direct owners. If a direct owner has an adjusted gross income from the pass-through entity of less than zero, then the direct owner's share shall be treated as zero.

The tax rate is the same as [the individual income tax rate](#) for any given tax year. If the electing entity has a tax year that is in part of more than one tax year, the tax rate is determined for the individual rate in effect on the last day of the electing entity's tax year.

# Example 1: Determining Indiana-Sourced Income in a Single-Tiered Structure

Individual Partners A and B each have a 50% ownership interest in their Partnership. Partner A was an Indiana resident for all of 2022 (3.23% tax rate). Partner B was a nonresident during that time. The Partnership earned 25% of its income in Indiana and 75% from other states. The Partnership netted \$100,000 of ordinary business income from the sale of tangible personal property. The Partnership makes an election to pay tax at the entity level for 2022 and elects to tax Partner A on a pre-apportionment basis.

**Taxable income:** The electing partnership’s Indiana-sourced income is therefore **\$62,500** (\$50,000 plus \$12,500).

Type	Partner A (resident)	Partner B (nonresident)
Portion of income from partnership	\$50,000	\$50,000
Indiana apportionment %	100%	25%
Partnership’s Indiana Gross Income	\$50,000	\$12,500

# Example 2: Determining Indiana-Sourced Income in a Multi-Tiered Structure

Partnership A operates a business in Indiana, Michigan, and Ohio. Partnership A has three partners: Partnership B (50% interest, MI partnership), Individual C (25% interest, OH resident), and Individual D (25% interest, IN resident). Partnership A elects to tax Individual D on a pre-apportionment basis.

Partnership A has \$30,000,000 of federal ordinary business income, no Indiana adjustments, and sales of tangible, personal property as follows:

State	Amount	Percentage
Michigan (has nexus)	\$9,000,000	30%
Ohio (has nexus)	\$4,500,000	15%
Indiana (has nexus)	\$16,500,000	55%
Sales to other states	\$0	-
<b>Total sales</b>	<b>\$30,000,000</b>	-

Partnership A elects to pay tax at the entity level.

Partnership B has four partners: Corporation E (40%), Corporation F (35%), Individual G (15%, IN resident), Individual H (10%, KY resident). Partnership B has no additional entity-level activity other than its interest in Partnership A. All income and expenses of Partnerships A and B are allocated to each partner on a *pro rata* basis based on ownership percentage.

Partnership B elects to treat Individual G as taxable on a pre-apportionment basis.

**Taxable Income:** If Partnership A makes the election, it will owe tax on \$19,875,000 of taxable Indiana income. See Partnership A's table below.

If Partnership B makes the election to be taxed at the entity level, Partnership B will be subject to tax on \$9,262,500 of taxable Indiana income. See Partnership B's table below.

Partnership B will determine its tax by first using its own income prior to apportionment, regardless of whether Partnership A determined the tax on a pre- or post-apportionment basis. Partnership B will compute its tax separately.

If Partnership B **does not** make the election to be taxed at the entity level, Partnership B may pass the pass-through entity tax paid on its behalf through to its partners so that the partners can treat the tax as Pass Through Entity Tax. However, it cannot pass a partner more tax than a *pro rata* share of the Pass Through Entity Tax or the amount of Pass Through Entity Tax computed on the partner's share, whichever amount is greater.

## Partnership A's Computation of Income Attributable to Indiana

	Partnership B	Individual C (OH Resident)	Individual D (IN Resident)	Total
Ownership % in Partnership A	50%	25%	25%	100%
Adjusted Gross Income	\$15,000,000	\$7,500,000	\$7,500,000	\$30,000,000
IN apportionment	55%	55%	N/A	-
IN Taxable Income	\$8,250,000	\$4,125,000	\$7,500,000	\$19,875,000

# Partnership B’s Partners’ Computation of Income Attributable to Indiana

	Corporation E	Corporation F	Individual G (IN Resident)	Individual H (KY Resident)	Total
Ownership % in Partnership A	40%	35%	15%	10%	100%
Business Income	\$6,000,000	\$5,250,000	\$2,250,000	\$1,500,000	\$15,000,000
IN apportionment	55%	55%	N/A	55%	-
IN Taxable Income	\$3,300,000	\$2,887,500	\$2,250,000	\$825,000	\$9,262,500

## Reporting Income and Tax on Schedule Composite & Schedule Composite-COR

On its return for the taxable year, the electing entity shall attach a Schedule Composite and, if applicable, Schedule Composite-COR. These schedules compute both Pass Through Entity Tax and withholding tax due.

### Paper Returns

If an entity is electing to be subject to Pass Through Entity Tax, **the entity must list “PTET”** on Line 1 of Schedule Composite as the name of the entity. It should not enter an exception code on Line 1, Column A. The entity should list the state of its commercial domicile in Line 1, Column B. Column C should include one of the following codes if Pass Through Entity Tax is computed at the applicable tax rate (3.23% for pass-through entities whose tax year ends in 2022 or 3.15% for pass-through entities whose tax year ends in 2023).

### Electronic Returns

If an entity is filing its return electronically, **“PTET”** can be listed on **any** line of the Schedule Composite. All other instructions for specific listing on the **“PTET”** line must be followed. This also applies to **any other instance where instructions reference listing “PTET” on Line 1**. It still is recommended that **“PTET”** be listed on Line 1 in these circumstances whenever possible; however, it is not required.



## Computation Codes 1–3

### Code 1

Resident owners are subject to Pass Through Entity Tax on all income and the Pass Through Entity Tax is calculated at the applicable tax rate.

### Code 2

Resident owners are subject to Pass Through Entity Tax on only the share of the eligible entity's income apportioned to Indiana and the Pass Through Entity Tax is calculated at the applicable tax rate.

### Code 3

There are no resident owners and the Pass Through Entity Tax is calculated at the applicable tax rate.

## Computation Codes 4–6

These should **only be used in tiered structures** when:

- the Pass Through Entity Tax passed through from one electing entity to another electing entity is greater than the recipient's Pass Through Entity Tax, and
- the recipient entity passes through more Pass Through Entity Tax to one or more owners than would otherwise be due from the recipient entity.

**Example:** Partnership B's share of income from Partnership A is \$1,000,000. Partnership A makes a Pass Through Entity Tax election and pays \$32,300 on behalf of Partnership B. Partnership B determines its income for its Indiana sources and determines that its total share of all partners' income is \$900,000. Assume Partnership B has no excluded owners such as a bank. Partnership B has a Pass Through Entity Tax liability of \$29,070. If Partnership B passes through more than \$29,070, it should use codes 4–6. However, if Partnership B elected to pass through only \$29,070, it should use codes 1–3.

### Code 4

Resident direct owners are subject to Pass Through Entity Tax on all income.

### Code 5

Resident direct owners are subject to Pass Through Entity Tax on only the share of the eligible entity's income apportioned to Indiana.

### Code 6

There are no resident direct owners.

## Instructions for Completing Remaining Lines on Schedule Composite

On line 1 of the Schedule Composite, enter zero (0) in Columns D through G.

For each direct owner subject to Pass Through Entity Tax, enter the owner's name beginning on Line 2 of the Schedule Composite. For Column A, leave the column blank unless one of the following occurs:

- The owner is an Indiana resident. Enter exception code "15" in column A.
- The owner is an employee stock option plan that has completed Schedule IN-COMPA. Enter exception code "03" in Column A.
- The owner is an individual retirement account that has completed Schedule IN-COMPA. Enter exception code "06" in Column A.
- The owner is a bank and trust company, national banking association, savings bank, building and loan association, savings and loan association, or international banking facility **and** the owner is not an S corporation, partnership, or trust for federal tax purposes. Enter exception code "02" in Column A.
- The owner is a non-resident of Indiana, is not an employee stock option plan, an individual retirement account, a bank or international banking facility, **and** the Pass Through Entity Tax (or combined Pass Through Entity Tax and withholding tax) passed through to the owner is greater than the Pass Through Entity Tax otherwise computed for the owner of the non-resident's income reported in Column C. Enter exception code "01" in Column A.

For each owner, beginning on Line 2 of the Schedule Composite, report the income subject to Pass Through Entity Tax and withholding tax in Column C and the **combined** Pass Through Entity Tax and withholding tax in Column D. Column D must be at least the product of the rate of Column C unless the entity is expressly permitted to use exemption codes 02, 03, or 06 as provided above. Complete Columns E through F for withholding tax purposes **only**. Enter the sum of Column D and Column F in Column G.

A pass-through entity is **not** permitted to use most tax credits to reduce the amount of Pass Through Entity Tax owed for a direct owner nor can the pass-through entity use those credits to offset its Pass Through Entity Tax liability. The only credits that a pass-through entity can use are Indiana Pass Through Entity Tax paid or Indiana withholding tax credits.

## Computation Codes 7-12

If you are an entity that has not elected to be subject to Pass Through Entity Tax (“non-electing entity”), you may pass through Pass Through Entity Tax to your owners as Pass Through Entity Tax or treat the Pass Through Entity Tax as withholding tax. Even though estates and trusts cannot elect to be subject to Pass Through Entity Tax themselves, they can pass through Pass Through Entity Tax paid by another entity.

For 2022, no special election is required. However, you must enter “PTET” for the name of the partner, shareholder, or beneficiary on Line 1 of the Schedule Composite.

The special instructions for electronically filed returns that permit listing “PTET” on Schedule Composite on a line other than Line 1 also apply here.

In addition, in Column C on Line 1, enter the following computation codes depending on the how the resident share is to be computed:

### Code 7

Resident owners are subject to Pass Through Entity Tax on all income from the non-electing entity and all Pass Through Entity Tax is calculated either at the applicable tax rate or at a lower rate.

### Code 8

Resident owners are subject to Pass Through Entity Tax on only the share of the non-electing entity’s income apportioned to Indiana and all Pass Through Entity Tax is calculated either at the applicable Pass Through Entity Tax rate or at a lower rate.

### Code 9

There are no resident owners of the non-electing entity and all Pass Through Entity Tax is calculated either at the applicable tax rate or at a lower rate.

### Code 10

Resident owners are subject to Pass Through Entity Tax on all income from the non-electing entity and the Pass Through Entity Tax is calculated for at least one individual or entity at a rate greater than the applicable tax rate.

### Code 11

Resident owners are subject to Pass Through Entity Tax only on the share of the non-electing entity’s income apportioned to Indiana and the Pass Through Entity Tax is calculated for at least one individual or entity at a rate greater than the applicable tax rate.

## Code 12

There are no resident owners of the non-electing entity, and the Pass Through Entity Tax is calculated for at least one individual or entity at a rate greater than the applicable tax rate.

Enter the same exception codes that apply for direct owners of entities that make an election to be subject to Pass Through Entity Tax. In addition, an entity that does not make an election to be subject to Pass Through Entity Tax may use regular exception codes applicable to withholding but solely for purposes of withholding. An entity passing through Pass Through Entity Tax cannot use most tax credits or exceptions to reduce Pass Through Entity Tax that is actually passed through.

For Schedule Composite-COR, enter "PTET" on Line 1 under the name of the entity if the entity has elected to be subject to Pass Through Entity Tax or if the entity is passing through Pass Through Entity Tax. No other information should be entered on Line 1. For electronically filed returns, "PTET" can be used on a different line if your software does not permit listing "PTET" on Line 1.

For each C corporation subject to Pass Through Entity Tax, list the information as you otherwise would on Schedule Composite-COR beginning on line 2. Use an exception code only if the tax reported is different than 4.9% (not the applicable individual rate) and follow the procedures applicable for the exception code.

If the corporation is exempt as a bank or international banking facility, enter exception code "02" for that entity if the withholding is less than 4.9%.

In certain circumstances, an entity could be subject to both Pass Through Entity Tax **and** withholding tax. For instance, if a C corporation has \$10,000 of income as a partner in a partnership for the year ending December 31, 2022, the partnership elects to be subject to Pass Through Entity Tax, and the C corporation does not provide an exception for the C corporation, the partnership will treat \$323 as Pass Through Entity Tax and \$167 as withholding. The Pass Through Entity Tax and withholding tax will be subject to different penalty and interest rules.

# Reporting Pass Through Entity Tax

If an entity remits Pass Through Entity Tax for its owners, the entity on its return must report:

- Pass Through Entity Tax in the same manner as other withholding tax payments
- Pass Through Entity Tax paid for the owner on Schedule IN K-1 on the same line for state taxes withheld (Schedule IN K-1, Part 1, Line 11)
- The owner's share of Pass Through Entity Tax as a state income tax deducted for purposes of Part 4, Line 1 of Schedule IN K-1. Include only the amount that the pass-through entity deducted for federal tax purposes for the current tax year. Due to federal reporting requirements, amounts paid for 2022 may be reported by a pass-through entity as a 2023 (or later) deduction. If this happens, report the amount as a 2023 (or later, if applicable) modification.

If the entity does not make an election to be subject to Pass Through Entity Tax, the entity must report the Pass Through Entity Tax passed through to its owners or beneficiaries in the manner that it would otherwise report taxes withheld for the owners or beneficiaries (Schedule IN K-1, Part 1, Line 11 or IT-41 Schedule K-1, Part 1, Line 12). The entity must also report that owner's or beneficiary's share of Pass Through Entity Tax as a state income tax deducted for purposes of Part 4, Line 1 of Schedule IN K-1 or IT-41 Schedule IN K-1.

For tax year 2022, a pass-through entity that either pays Pass Through Entity Tax or passes through Pass Through Entity Tax will report the Pass Through Entity Tax amounts and other withholding amounts. This will be reported via a letter or other statement breaking out the separate amounts. DOR will not be issuing a state form for these breakouts for 2022.

## Claiming Credits for Indiana Pass Through Entity Tax Paid

Each entity owner is entitled to a refundable credit for the Pass Through Entity Tax, allowed against income tax for a taxpayer who is a partner in a partnership or a shareholder of an S corporation that has elected to pay the Pass Through Entity Tax. The amount of the credit is equal to the portion of the tax paid by the entity that is attributable to the partner or shareholder's share of income taxable in Indiana. This would effectively offset any impact of payment of tax at the entity level on the entity owners.

The eligible individual taxpayers that receive an Indiana Pass Through Entity Tax credit may claim the credit by attaching Schedule IN K-1 or IT-41 Schedule K-1, reflecting the credit and listing the credit on the individual's IT-40 Schedule 5 or IT-40PNR Schedule F of their Indiana personal income tax return.

Partnerships and S corporations report Pass Through Entity Tax paid by another entity as pass-through withholding (Form IT-65, Line 8 or IT-20S, Line 17).

In addition to the lines required for individuals, partnerships, and S corporations, the credit should be listed on these lines of other returns if applicable:

- Nonprofit corporations: IT-20NP, line 23
- Corporations: IT-20, line 37.
- Financial institutions: FIT-20, Line 42
- Estates and trusts: IT-41, Line 14

## Additional Resources

[Senate Enrolled Act 2 \(2023\)](#)

[Indiana Code 6-3-2.1](#)

Information Bulletin (coming soon)

## Contact Us

Questions on Pass Through Entity Tax? [Contact Tax Policy](#).