STATE OF INDIANA

DEPARTMENT OF LOCAL GOVERNMENT FINANCE

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TO: All Political Subdivisions

FROM: Jason Cockerill, Commissioner

DATE: July 17, 2026

SUBJECT: Legislation Affecting Local Income Taxes

Introduction

The Department of Local Government Finance ("Department") issues this memorandum to inform the public and local government officials about legislation passed by the Indiana General Assembly in the 2026 Regular Session concerning local income taxes ("LIT"). The affecting legislation is found in House Enrolled Act 1210-2026 ("HEA 1210") signed by Governor Mike Braun on March 12, 2026. Except for Indiana Code citations, sections referenced in this memorandum are references to sections in HEA 1210.

This memorandum is being issued for informative purposes only and is not to be construed as providing legal advice or a conclusive interpretation of law, or as a substitute for reading the law.

NOTE: This memorandum will only cover changes made during the 2026 session to the LIT structure as originally enacted by Senate Enrolled Act 1-2025 ("SEA 1"). The Department released a memorandum on October 1, 2025, entitled "2027 Local Income Tax Statute Compilation." The Department will release an updated compilation of statutes governing LIT at a later date.

I. Delay in Implementation of LIT Changes

Most notably, HEA 1210 delays the implementation of the LIT overhaul for one (1) year. As originally enacted by SEA 1, the current LIT structure would expire on January 1, 2028, and counties and eligible municipalities would have to adopt new ordinances starting on July 1, 2027, for collections starting in 2028. With this delay, the current LIT ordinances would expire on January 1, 2029, and counties and eligible municipalities may adopt new LIT ordinances starting on July 1, 2028, for collections starting in 2029. Under current law, distributions would therefore begin in 2030.

Therefore, the repeal of certain aspects of the current LIT structure, including PTRC, LIT councils, and levy freeze, will also be delayed for one (1) year.

II. Levy Freeze Stabilization Fund

Section 69 amends IC 6-1.1-18.5-3 to clarify that, in a county with a levy freeze LIT rate under IC 6-3.6-11-1, that county may use money in the stabilization fund to supplement the maximum levy of all civil units in the county. Under current law, maximum levies would be increased by the amount of levy foregone during the levy freeze, but a county may use its stabilization fund balance to fund operations in lieu of a levy increase. With this change, the maximum levy for all civil taxing units in a levy freeze county will be increased by the amount of foregone levy, and the stabilization fund balance may be used to fund operations.

This change is effective January 1, 2029.

III. Pre-Review of Proposed Ordinances, Resolutions, & Notices

Section 112 amends IC 6-3.6-3-2, effective July 1, 2026, to remove the provision allowing for a pre-review of LIT ordinances, resolutions, and notices by the Department. The Department may still make uniform notices, ordinances, and resolutions for adopting bodies to use. However, after July 1, 2026, requests to review a proposed ordinance, resolution, or notice by the Department will no longer be available by law.

IV. Distribution of LIT Revenue

A. Distribution of Judicial LIT and Homestead Credit LIT rates

Section 125 amends IC 6-3.6-6-3 to clarify how the rates imposed under IC 6-3.6-6-2.9 to fund courtroom expenses (the "judicial LIT rate") and IC 6-3.6-6-3.1 to fund homestead property tax credits (the "homestead credit LIT rate") are to be treated. Under this change, a clarification is added to specify that these rates are distributed to the county before the distribution of (1) the revenue from the first 0.25% of the expenditure rate (in "CAGIT counties" only) and (2) additional revenue (i.e., certified shares, public safety, and economic development distributions).

This change is effective July 1, 2026, and applies to the current LIT scheme, which expires July 1, 2028. Therefore, this change would be effective for distributions in 2027 and 2028.

B. Distribution Formulas for LIT Rates After 2029

Effective July 1, 2028, sections 127, 128, 129, 130, and 142 make the following changes to distribution formulas under the new LIT regime. These changes will apply to distributions starting in 2030.

1. County General Purpose Revenue, IC 6-3.6-6-4

General purpose revenue may not be used to fund homestead property tax credits. In addition, the allocation of general purpose revenue for subsequent years may not result in less revenue being allocated to the payment of bonds or leases where LIT revenue was pledged, pursuant to IC 6-3.6-6-3 and 5.

2. Fire and EMS Revenue, IC 6-3.6-6-4.3

Revenue raised from the Fire and EMS LIT rate under IC 6-3.6-6-4.3 shall be distributed by the county among the county and each fire protection district, fire protection territory, and municipal fire department in the county that provides fire protection or EMS, or both, in the county ("provider"). This clarifies that the revenue may be distributed also to the above stated entities that provide either fire or EMS.

In addition, the six (6) step formula originally enacted in SEA 1 was removed. Instead, the county may determine the allocation method for distributing revenue, subject to the following:

(1) The county must consider both the service boundaries of the provider and the population living within the service boundaries. The population must be based on data from the most recent federal decennial census.

(2) A distribution must be made to a township fire department where, looking back two (2) years from when the county is determining the allocations, at least fifty percent (50%) of fire runs made by the township fire department are carried out by full-time firefighters that receive a salary of at least thirty-thousand dollars ($30,000). In other words, the township fire department must receive a distribution where a majority of its runs from two (2) years prior were made by full-time firefighters with a salary of $30,000 or more.

(3) The service boundaries of the county only include the part where the county provides fire protection, EMS, or both.

(4) A distribution to a fire protection territory must be made to the provider unit.

(5) A distribution to a volunteer fire department ("VFD") must be made to the taxing unit served by the VFD.

<u>3. Population Determinations for Fire and EMS LIT and Nonmunicipal LIT Rates</u>

If population within an entity's service boundaries cannot be determined using census data, the county may use income tax returns that report a residence located within the service boundaries to estimate population. The county auditor must report the estimated population to the Department no later than July 15 of the calendar year that precedes the calendar year before the year in which the distribution is made. If the county auditor does not provide the estimated population, the Department may use the most recent estimated population provided either by the county auditor or the Department of Revenue.

<u>4. Small Town LIT Rate Distribution Formula, IC 6-3.6-6-6.1</u>

Distribution of revenue from the small town LIT rate must be made using the following formula:

STEP ONE: Determine the population of each municipality located in the county, excluding any municipality that is eligible to impose a municipal LIT rate and did not elect to be eligible to receive a small town LIT distribution pursuant to IC 6-3.6-6-23(b)(3).

STEP TWO: Determine the sum of the STEP ONE results.

STEP THREE: Add the STEP TWO result to the population of the unincorporated area of the county.

STEP FOUR: Divide STEP TWO by STEP THREE.

STEP FIVE: Multiply STEP FOUR by one and five-tenths (1.5), expressed as a percentage. **This result may not exceed one hundred percent (100%).**

STEP SIX: Multiply STEP FIVE by the total amount of small town LIT revenue collected.

(STEP SEVEN through STEP NINE must be done for each municipality that adopted a resolution electing to receive a distribution of small town LIT revenue, but excluding any municipality that is eligible to impose a municipal LIT rate and did not elect to be eligible to receive a small town LIT rate.)

STEP SEVEN: Divide the STEP ONE amount for that municipality by STEP TWO.

STEP EIGHT: Multiply the STEP SEVEN result for that municipality by STEP SIX.

STEP NINE: Find the sum of the STEP EIGHT results for each municipality.

STEP TEN: Subtract the STEP SIX result from the small town LIT rate revenue collected.

STEP ELEVEN: Subtract the STEP NINE result from the STEP SIX result.

STEP TWELVE: Add the STEP TEN result by the STEP ELEVEN result together.

In addition, section 133 amends IC 6-3.6-6-23 to provide that a municipality with a population of 3,500 or more, instead of between 3,500 and 7,000, may adopt a resolution to be treated as eligible for a small town LIT rate.

C. Retention of Small Town LIT Revenue by a County, IC 6-3.6-6-6.1

Section 130 also provides that if no eligible municipality elects by resolution to request a small town LIT distribution, the county may retain all of the revenue raised from the small town LIT rate for that year. Two provisions previously enacted by SEA 1 are also removed. Specifically, the provision allowing a county to distribute small town LIT revenue to those municipalities that elect a distribution when not all have done so, and the provision requiring the county to retain seventy-five percent (75%) of the small town LIT rate if the county previously adopted a general purpose rate of 1.2.%. The county may use any revenue collected from the small town LIT rate for any purpose described in IC 6-3.6-6-4.

V. Debt Obligations

A. Reporting of Debt Obligations to Department, IC 6-3.6-3-2.5

Section 113 adds IC 6-3.6-3-2.5 as a new section, effective **July 1, 2027.**

The fiscal officer of each county and municipality must provide the Department a report of the total amount of that unit's debt service obligations payable from LIT revenue that will be due in the upcoming calendar year (and future years, if requested by the Department). This report is due by July 31.

"Debt service obligations" refers to

(1) the principal and interest payable on bonds;

(2) lease rental payments; and

(3) any amount required under an agreement for bonds or leases to be deposited in a sinking fund or other service;

during a calendar year.

The Department shall annually determine whether each county and municipality with debt service obligations due in the upcoming year has timely submitted the information required. This suggests that the reporting requirement only applies to counties and municipalities with debt service obligations due in the upcoming year that are payable from LIT revenues.

B. Minimum Required LIT Rate to Pay Debt Obligations, IC 6-3.6-6-2

Section 124 amends IC 6-3.6-6-2 to require that, if a LIT rate is imposed as a pledge to pay for bonds, leases, or other obligations, the county must impose an expenditure rate under IC 6-3.6-6-2(b) in a calendar year of at least 125% the sum of the highest debt obligations for that year, including amounts deposited in a sinking fund or reserve, payable from the applicable component rate. This is meant to ensure that the debt obligations can continue to be paid although the underlying municipal LIT rate expired when the municipality does not take action to continue the rate. This change is effective July 1, 2028.

C. Continuing of a LIT Rate to Pay Debt Obligations, IC 6-3.6-3-4 & IC 6-3.6-6-22

Section 115 amends IC 6-3.6-3-4, and Section 132 amends IC 6-3.6-6-2.2 to address what happens if

(1) a LIT rate was imposed for a calendar year in part to pay for bonds, leases, or other obligations;

(2) the LIT rate is not continued and expires on December 31 of that year; and

(3) there are outstanding bonds, leases, or other obligations payable from that LIT rate.

Notwithstanding the expiration of the LIT rate, a LIT rate is continued and shall be at least the minimum tax rate necessary to produce 125% the sum of the highest annual debt obligations for that year, including amounts deposited in a sinking fund or reserve. As above, this is meant to ensure that the debt obligations can continue to be paid although the underlying LIT rate expired when the municipality does not take action to continue the rate.

This change is effective July 1, 2028.

VI. Identification of Local Taxpayer

HEA 1210 also amends several provisions affecting the status of the "local taxpayer;" that is, the individual who is subject to a local income tax in a county. Except as otherwise stated, these changes are effective January 1, 2029.

A. Residency in a County, IC 6-3.6-8-3

Section 138 clarifies that an individual is treated as the resident of a county where, if none of the other conditions specified in IC 6-3.6-8-3(a) applies, the individual spent more time in Indiana during the taxable year compared to any other county. This change addresses what happens if an individual did not spend a majority of their time in a county in a year. Determination of residency may be determined by a plurality of time spent in a county. This section is effective July 1, 2026.

B. Residency in a Municipality, IC 6-3.6-8-3

Section 139, **effective January 1, 2029**, refines the criteria for determining residency for purposes of a LIT rate adopted under IC 6-3.6-6-22 (the "municipal LIT rate") and IC 6-3.6-6-2(b)(4) (the "small town LIT rate"). Under this amendment:

(1) The criteria for determining residency in a county (IC 6-3.6-8-3(a)) must be applied to municipalities and the parts of the county in which the county may impose a small town LIT rate.

(2) If an individual meets the criteria in IC 6-3.6-8-3(a)(1) through (a)(3) for an area in the county in which the county may impose a small town LIT rate, the individual is considered a part of the county where the small town LIT rate may be imposed.

(3) If an individual is a resident of the county because the individual spent more time in that county during the taxable year compared to any other county in Indiana,

(A) the time spent in all areas within the county in which the county may impose a small town LIT rate must be aggregated; and

(B) determination of the individual's residence within the county must be determined solely by the time spent in the municipality (or part of the county) and the parts of the county in which the small town LIT may be imposed.

C. Small Town LIT Rate, IC 6-3.6-2-15

Section 110 amends IC 6-3.6-2-15 to state that, for purposes of the small town LIT rate, "resident local taxpayer" means an individual who resides in the part of the county for which the county may impose a small town LIT rate on January 1 of the individual's taxable year.

D. Principal Place of Business, IC 6-3.6-2-13

Section 109 amends the definition of "local taxpayer" found in IC 6-3.6-2-13, to clarify that, in the case of the municipal LIT rate or a small town LIT rate, it does not refer to an individual who maintains a principal place of business or employment in that county on January 1 of the taxable year.

This section also provides that, in the case of a municipal LIT rate, a "local taxpayer" includes an individual who has income apportioned in Indiana as a team member under IC 6-3-2-2.7 or a race team member under IC 6-3-2-3.2. As a result, a team member who is not an Indiana resident but is on an Indiana roster on January 1 would be subject to the municipal LIT rate but not any other LIT rate. A corresponding change is also made to IC 6-3.6-6-22. See Section 132 of HEA 1210.

E. Adjusted Gross Income for Perry County, IC 6-3.6-8-7

Section 140 amends IC 6-3.6-8-7 to provide that the definition of "adjusted gross income" as it applies to a resident of Perry County also applies to a resident of a municipality in Perry County for purposes of the municipal LIT rate.

VII. Reporting by Local Officials of Geographic Data

Section 112 also requires the county auditor to provide to the Department and the state GIS officer a certification of which taxing units comprise each taxing district in the county. This change is effective July 1, 2026. Therefore, July 1, 2026, will presumably be the first date in which the county auditor must make the certification.

Section 124 amends IC 6-3.6-6-2(b)(4) to require the adopting body, in an ordinance imposing a LIT rate for the small town LIT rate, to identify each taxing district in which the small town LIT rate will be imposed. This change is effective July 1, 2028.

Section 132 amends IC 6-3.6-6-22 to require that a municipality that imposes a municipal LIT rate shall work with the county to provide geographic information prescribed by the state GIS officer. This information must be provided to the state GIS officer no later than August 1 of each year. This change is effective July 1, 2028.

VIII. Maximum Rate Adjustments

Section 121 adds IC 6-3.6-3-12 as a new section, effective **July 1, 2028**, and applies to an ordinance adopted after June 30, 2028, to impose a LIT rate.

If an ordinance imposes a LIT rate that exceeds the applicable maximum allowable rate, the Department shall notify the adopting body and fiscal officer that one (1) or more tax rates exceed the maximum allowable rate. This notice must occur no later than thirty (30) days after the adopting body submits the ordinance under IC 6-3.6-3-2.

The adopting body may adopt an ordinance to correct the tax rate or rates that exceed the maximum allowable. This correcting ordinance must be adopted no later than thirty (30) days after receiving the Department's notice. The following will apply to the correcting ordinance:

(1) Any statutory requirements followed for the original ordinance.

(2) The effective date of the original ordinance.

If the correcting ordinance still contains a tax rate or rates that exceed the maximum allowable, the correcting ordinance is void and treated as if the adopting body did not adopt it.

However, under the following conditions, the Department will reduce the LIT rate or rates adopted in the original ordinance:

(1) The adopting body fails to adopt a correcting ordinance.

(2) The correcting ordinance still contains a tax rate or rates that exceed the maximum allowable.

(3) The original ordinance was adopted between August 3 and October 1 of a calendar year.

The LIT rate or rates will be reduced as follows:

For the component LIT rates in IC 6-3.6-6-2(b): Each of the component rates that exceed the maximum allowable for that component rate will be reduced to the maximum allowable, without further action by the adopting body.

For the county LIT rate in IC 6-3.6-6-2(c): The LIT rate or rates shall be reduced as follows:

First, the county general purpose rate (IC 6-3.6-6-2(b)(1) is reduced, subject to the minimum required rate (i.e., to meet debt obligations).

Next, if the aggregate tax rate still exceeds the maximum allowable rate after reducing the county general purpose rate, the fire and EMS rate (IC 6-3.6-6-2(b)(2)) and nonmunicipal rate (IC 6-3.6-6-2(b)(3)) are then reduced proportionately.

If both the component LIT rates and county LIT rate exceed the maximum allowable: The component rates will be reduced first, then the county LIT rate, as described above.

The reductions to the LIT rates under this section have the same effective date as the original ordinance.

IX. Special Purpose Rates

A. Imposition of Rate on a Local Taxpayer

Section 134 adds IC 6-3.6-7-0.5 as a new section, to provide that, for purposes of a special purpose LIT rate imposed under IC 6-3.6-7, the county may only impose the LIT rate on a local taxpayer if it can also impose the following rates on that taxpayer:

(1) General purpose LIT rate (IC 6-3.6-6-2(b)(1))
(2) Fire and EMS LIT rate (IC 6-3.6-6-2(b)(2))
(3) Nonmunicipal LIT rate (IC 6-3.6-6-2(b)(3))

This change is effective January 1, 2029.

B. Distribution of Property Tax Replacement Funds to Hancock County Libraries

Section 135 amends IC 6-3.6-7-9, which establishes a special purpose LIT rate in Hancock County to fund public libraries in that county using LIT revenue in lieu of property taxes. This section is amended so that the county council must allow by resolution a one (1) time transfer between January 1 and July 1, 2029, to distribute the balance (as of December 31, 2028) in the library property tax replacement fund to the Hancock County Public Library and Fortville Public Library. This distribution must be based on the proportional share of the population in each library district, based on the most recent federal decennial census. Each public library must then adopt a substantially similar resolution requesting the transfer.

This change is effective July 1, 2028.

C. Marshall County LIT Revenue

Section 136 amends IC 6-3.6-7-14 to provide that revenue from the special purpose LIT rate for Marshall County may be used for operations of the county jail. The Department emphasizes that the proper use of LIT funds is overseen by the State Board of Accounts. This change is effective upon passage.

D. Public Transit LIT Revenue

Section 137 amends IC 6-3.6-7-27 to state that the LIT rate for public transit is not considered a part of the maximum allowable LIT rate specified in IC 6-3.6-6-2. Under SEA 1, this LIT rate was considered a part of the maximum allowable LIT rate. This change is effective January 1, 2028.

X. MUST Reports

Section 122 adds IC 6-3.6-3-13 as a new section, effective upon passage, and applies beginning after March 1, 2026.

According to this new section, each county *may*, before October 1, 2026, convene a municipal unit strategic taskforce ("MUST") with one (1) representative from the county council (not explicitly required to be from the membership of the county council) and each city and town fiscal officer for the purpose of negotiating and establishing through unanimous support an agreement for the distributions of LIT revenue. This taskforce may not include representatives from entities providing fire protection and EMS (as defined in IC 6-3.6-6-4.3) or from nonmunicipal units (as defined in IC 6-3.6-6-0.5). As a taskforce convened by a public agency (the county), the Open Door Law would apply to the meetings of a MUST. Though fire protection and EMS entity representatives are prohibited from serving on a MUST, those representatives are not prohibited from attending MUST meetings.

If a MUST establishes a LIT distribution agreement, the county shall send this agreement to the Department. The Department may make an optional agreement template available for use by units. The Department must compile a report of all agreements received and submit the report to the legislative council before December 1, 2026.

Contact Information

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