



Indiana Department of Revenue

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Departmental Notice #42

Subject: Change in Nonresident Tax Rates for Local Income Tax on or After January 1, 2017

Publication Date: September 2023

Effective Date: January 1, 2017

Reference(s): IC 6-3.5; IC 6-3.6

Replaces Notice #42, dated August 2016

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Summary of Changes

Apart from technical, nonsubstantive changes, this notice has been updated to remove outdated references.

Introduction

This notice explains that the local (county) income tax rates imposed on nonresidents on or after January 1, 2017, are the same rate imposed on residents and clarifies associated withholding changes.

Summary

HEA 1485 (2015) combined county adjusted gross income tax, county option income tax, and county economic development income taxes into one combined local income tax. The new local income tax went into effect January 1, 2017.

The enactment of the local income tax did not affect the resident tax rates in effect on May 1, 2016. In other words, the rates in effect on May 1, 2016, continued to be in effect on January 1, 2017, unless the county acted to change its county income tax rates between July 1, 2016, and October 31, 2016.

However, IC 6-3.6-4-1 imposes the applicable local income tax rate on local taxpayers, as opposed to different rates for county resident and nonresident taxpayers applicable under the county adjusted gross income tax and county option income tax. The definition of a local taxpayer is:

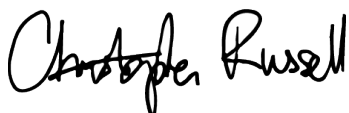
1. An individual who resides in a county on January 1 of the tax year (“resident taxpayer”), or
2. An individual who does not reside in a county that has imposed a local income tax on January 1 of the tax year, but whose principal place of business or employment is in a county that has imposed a local income tax (“nonresident taxpayer”).

This statutory definition is unchanged from the previous county income taxes imposed. No changes based on residency are required solely based on the imposition of the local income tax.

IC 6-3.6-4-1 does not provide for different local income tax rates for resident and nonresident taxpayers. Thus, if a taxpayer is subject to local income tax in a county, an employer must withhold the tax at the same rate for all individuals subject to that county’s tax rate. In addition, a person subject to local income tax for a county is subject to tax at the same rate, regardless of whether the individual is a resident or nonresident taxpayer.

Effective January 1, 2017, the Indiana Department of Revenue published one local income tax rate in Departmental Notice #1 and in its return instructions for tax years starting in 2017. That rate is applicable to both resident and nonresident taxpayers. Any changes to local income tax rates for withholding is published by the department in Departmental Notice #1, which is published on the department’s website twice a year and is effective January 1 and October 1 each year. Other than listing one rate as opposed to two, no changes in the publication dates or location of publication on the department’s website occurred.

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



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