HOUSE BILL No. 1521

DIGEST OF INTRODUCED BILL

Citations Affected: IC 6-3-2-1; IC 6-3.6-2-2.

Synopsis: Income tax replacement. Eliminates the state adjusted gross income tax by reducing the rate to zero. Provides that the reduction in revenue resulting from the elimination of the state adjusted gross income tax must be offset by adjustments to the state gross retail tax. Provides that in calculating the local income tax (LIT), which is imposed based on a local taxpayer's state adjusted gross income, the calculation of a taxpayer's state adjusted gross income for LIT purposes shall be calculated under the adjusted gross income tax provisions as if those provisions, and the most recent adjusted gross income tax rate before its elimination, were still in effect.

Effective: July 1, 2023.

Borders

January 19, 2023, read first time and referred to Committee on Ways and Means.

Introduced

First Regular Session of the 123rd General Assembly (2023)

PRINTING CODE. Amendments: Whenever an existing statute (or a section of the Indiana Constitution) is being amended, the text of the existing provision will appear in this style type, additions will appear in **this style type**, and deletions will appear in ~~this style type.~~

Additions: Whenever a new statutory provision is being enacted (or a new constitutional provision adopted), the text of the new provision will appear in **this style type**. Also, the word **NEW** will appear in that style type in the introductory clause of each SECTION that adds a new provision to the Indiana Code or the Indiana Constitution.

Conflict reconciliation: Text in a statute in *this style type* or ~~*this style type*~~ reconciles conflicts between statutes enacted by the 2022 Regular Session of the General Assembly.

HOUSE BILL No. 1521

A BILL FOR AN ACT to amend the Indiana Code concerning taxation.

Be it enacted by the General Assembly of the State of Indiana:

SECTION 1. IC 6-3-2-1, AS AMENDED BY P.L.138-2022, SECTION 4, IS AMENDED TO READ AS FOLLOWS [EFFECTIVE JULY 1, 2023]: Sec. 1. (a) As used in this section, "pre-1996 account" has the meaning set forth in IC 5-10.2-1-5.5.

(b) Each taxable year, a tax at the following rate of adjusted gross income is imposed upon the adjusted gross income of every resident person, and on that part of the adjusted gross income derived from sources within Indiana of every nonresident person:

(1) For taxable years beginning before January 1, 2015, three and four-tenths percent (3.4%).

(2) For taxable years beginning after December 31, 2014, and before January 1, 2017, three and three-tenths percent (3.3%).

(3) For taxable years beginning after December 31, 2016, and before January 1, ~~2023,~~ **2024,** three and twenty-three hundredths percent (3.23%).

(4) For taxable years beginning after December 31, ~~2022,~~ **2023,** ~~and before January 1, 2025, three and fifteen hundredths percent~~

~~(3.15%).~~ **zero percent (0%).**

~~(5) For taxable years beginning after December 31, 2024, and before January 1, 2027, the tax rate is determined as follows:~~

~~(A) If the state general fund revenue collections for the state fiscal year ending June 30, 2024, exceed by at least two percent (2%) the state general fund revenue collections for the state fiscal year ending June 30, 2023, as determined by the budget agency under subsection (e), the tax rate is three and one-tenth percent (3.1%).~~

~~(B) If the state general fund revenue collections for the state fiscal year ending June 30, 2024, do not exceed by at least two percent (2%) the state general fund revenue collections for the state fiscal year ending June 30, 2023, as determined by the budget agency under subsection (e), the tax rate is three and fifteen hundredths percent (3.15%).~~

~~(6) For taxable years beginning after December 31, 2026, and before January 1, 2029, the tax rate is determined as follows:~~

~~(A) Three percent (3.0%) if the:~~

~~(i) state general fund revenue collections for the state fiscal year ending June 30, 2026, exceed by at least two percent (2%) the state general fund revenue collections for the state fiscal year ending June 30, 2025, as determined by the budget agency under subsection (e);~~

~~(ii) Indiana public retirement system determines under subsection (f) in 2026 that the balance of the pension stabilization fund (established by IC 5-10.4-2-5) is sufficient to pay the liabilities of the pre-1996 account without the need for an appropriation by the general assembly; and~~

~~(iii) tax rate was decreased under subdivision (5)(A).~~

~~(B) Three and ten hundredths percent (3.1%) if the:~~

~~(i) state general fund revenue collections for the state fiscal year ending June 30, 2026, exceed by at least two percent (2%) the state general fund revenue collections for the state fiscal year ending June 30, 2025, as determined by the budget agency under subsection (e);~~

~~(ii) Indiana public retirement system determines under subsection (f) in 2026 that the balance of the pension stabilization fund (established by IC 5-10.4-2-5) is sufficient to pay the liabilities of the pre-1996 account without the need for an appropriation by the general assembly; and~~

~~(iii) tax rate was not decreased under subdivision (5)(A).~~

~~(C) If clauses (A) and (B) do not apply, the tax rate in effect in~~

~~the taxable year beginning after December 31, 2025, and before January 1, 2027, remains in effect.~~

~~(7) For taxable years beginning after December 31, 2028, the tax rate is determined as follows:~~

~~(A) Two and nine tenths percent (2.9%) if the:~~

~~(i) state general fund revenue collections for the state fiscal year ending June 30, 2028, exceed by at least two percent (2%) the state general fund revenue collections for the state fiscal year ending June 30, 2027, as determined by the budget agency under subsection (e);~~

~~(ii) Indiana public retirement system determines under subsection (f) in 2028 that the balance of the pension stabilization fund (established by IC 5-10.4-2-5) is sufficient to pay the liabilities of the pre-1996 account without the need for an appropriation by the general assembly; and~~

~~(iii) tax rate was decreased under subdivisions (5) and (6).~~

~~(B) Three percent (3.0%) if the:~~

~~(i) state general fund revenue collections for the state fiscal year ending June 30, 2028, exceed by at least two percent (2%) the state general fund revenue collections for the state fiscal year ending June 30, 2027, as determined by the budget agency under subsection (e);~~

~~(ii) Indiana public retirement system determines under subsection (f) in 2028 that the balance of the pension stabilization fund (established by IC 5-10.4-2-5) is sufficient to pay the liabilities of the pre-1996 account without the need for an appropriation by the general assembly; and~~

~~(iii) tax rate was decreased under subdivision (5) or (6), but not both.~~

~~(C) Three and ten hundredths percent (3.1%) if the:~~

~~(i) state general fund revenue collections for the state fiscal year ending June 30, 2028, exceed by at least two percent (2%) the state general fund revenue collections for the state fiscal year ending June 30, 2027, as determined by the budget agency under subsection (e);~~

~~(ii) Indiana public retirement system determines under subsection (f) in 2028 that the balance of the pension stabilization fund (established by IC 5-10.4-2-5) is sufficient to pay the liabilities of the pre-1996 account without the need for an appropriation by the general assembly; and~~

~~(iii) tax rate was not decreased under either subdivision (5) or (6).~~

~~(D) If clauses (A), (B), and (C) do not apply, the tax rate in effect in the taxable year beginning after December 31, 2027, and before January 1, 2029, remains in effect.~~

(c) Except as provided in section 1.5 of this chapter (before its expiration), each taxable year, a tax at the following rate of adjusted gross income is imposed on that part of the adjusted gross income derived from sources within Indiana of every corporation:

(1) Before July 1, 2012, eight and five-tenths percent (8.5%).

(2) After June 30, 2012, and before July 1, 2013, eight percent (8.0%).

(3) After June 30, 2013, and before July 1, 2014, seven and five-tenths percent (7.5%).

(4) After June 30, 2014, and before July 1, 2015, seven percent (7.0%).

(5) After June 30, 2015, and before July 1, 2016, six and five-tenths percent (6.5%).

(6) After June 30, 2016, and before July 1, 2017, six and twenty-five hundredths percent (6.25%).

(7) After June 30, 2017, and before July 1, 2018, six percent (6.0%).

(8) After June 30, 2018, and before July 1, 2019, five and seventy-five hundredths percent (5.75%).

(9) After June 30, 2019, and before July 1, 2020, five and five-tenths percent (5.5%).

(10) After June 30, 2020, and before July 1, 2021, five and twenty-five hundredths percent (5.25%).

(11) After June 30, 2021, **and before July 1, 2023,** four and nine-tenths percent (4.9%).

(12) After June 30, 2023, zero percent (0%).

(d) If for any taxable year a taxpayer is subject to different tax rates under subsection (b), the taxpayer's tax rate for that taxable year is the rate determined in the last STEP of the following STEPS:

STEP ONE: Multiply the number of days in the taxpayer's taxable year that precede the day the rate changed by the rate in effect before the rate change.

STEP TWO: Multiply the number of days in the taxpayer's taxable year that follow the day before the rate changed by the rate in effect after the rate change.

STEP THREE: Divide the sum of the amounts determined under STEPS ONE and TWO by the number of days in the taxpayer's tax period.

However, the rate determined under this subsection shall be rounded to the nearest one-hundredth of one percent (0.01%).

(e) The reduction in revenue resulting from the elimination of the state income tax under subsections (b)(4) and (c)(12) must be offset by adjustments to the state gross retail tax under IC 6-2.5-2.

~~(e) After the end of each even-numbered state fiscal year that ends before January 1, 2029, the budget agency shall calculate and determine the percentage of revenue growth in state general fund revenue collections between each applicable state fiscal year under subsection (b)(5) through (b)(7) for purposes of determining whether the tax rate will decrease for a taxable year under subsection (b)(5) through (b)(7). The budget agency shall make the calculation not later than thirty (30) days after the end of each even-numbered state fiscal year.~~

~~(f) Beginning after the end of the state fiscal year ending June 30, 2026, and after the end of each even-numbered state fiscal year that ends before January 1, 2029, for purposes of determining whether the tax rate will decrease for a taxable year under subsection (b)(6) through (b)(7), the Indiana public retirement system shall determine whether the balance of the pension stabilization fund (established by IC 5-10.4-2-5) is sufficient to pay the liabilities of the pre-1996 account without the need for an appropriation by the general assembly. The Indiana public retirement system shall make the calculation not later than thirty (30) days after the end of each even-numbered state fiscal year.~~

~~(g) This subsection applies in calendar year 2024. Not later than September 1, the budget agency shall report the percentage of revenue growth determined under subsection (e) to the budget committee, and certify the results to the department.~~

~~(h) This subsection applies in each even-numbered calendar year beginning after December 31, 2025, and ending before January 1, 2029. Not later than September 1 of each year, the budget agency, in collaboration with the Indiana public retirement system, shall report the:~~

~~(1) applicable percentage of revenue growth determined under subsection (e); and~~

~~(2) determination made for the applicable year under subsection (f);~~

~~to the budget committee, and certify the results to the department.~~

~~(i) Not later than November 1 of each year, if the results certified under subsection (g) or (h), as applicable, satisfy the conditions for a tax rate decrease as set forth in subsection (b)(5) through (b)(7), as applicable, the department shall provide notice of the determination~~

~~and the applicable tax rate under subsection (b)(5) through (b)(7) on the department's Internet web site in a departmental notice.~~

SECTION 2. IC 6-3.6-2-2, AS AMENDED BY P.L.239-2017, SECTION 14, IS AMENDED TO READ AS FOLLOWS [EFFECTIVE JULY 1, 2023]: Sec. 2. "Adjusted gross income" has the meaning set forth in IC 6-3-1-3.5 **and shall be calculated under IC 6-3 as if the rate under IC 6-3-2-1(b)(3) were still in effect.** However:

(1) except as provided in subdivision (3), in the case of a local taxpayer who is not treated as a resident local taxpayer of a county, the term includes only adjusted gross income derived from the taxpayer's principal place of business or employment;

(2) in the case of a resident local taxpayer of Perry County, the term does not include adjusted gross income described in IC 6-3.6-8-7; and

(3) in the case of a local taxpayer described in section 13(3) of this chapter, the term includes only that part of the individual's total income that:

(A) is apportioned to Indiana under IC 6-3-2-2.7 or IC 6-3-2-3.2; and

(B) is paid to the individual as compensation for services rendered in the county as a team member or race team member.