

LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS
FISCAL IMPACT STATEMENT

LS 6836

BILL NUMBER: HB 1284

NOTE PREPARED: Dec 30, 2025

BILL AMENDED:

SUBJECT: Local Income Taxes.

FIRST AUTHOR: Rep. Zimmerman

BILL STATUS: As Introduced

FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: *Rates for New LIT:* The bill provides that within a county's total expenditure rate, the county may adopt:

- (1) up to a 0.7% rate (instead of a 1.2% rate) for county general purpose revenue;
- (2) up to a 0.2% rate (instead of a 0.4% rate) for fire protection and emergency medical services;
- (3) up to a 0.2% rate for nonmunicipal civil taxing unit general purpose revenue; and
- (4) up to a 1.9% rate (instead of a 1.2% rate) for certain cities and towns that are not eligible to adopt a municipal local income tax (LIT) rate.

It authorizes a city or town to impose a municipal LIT rate up to 1.9% (instead of 1.2%).

LIT Rate Re-Adoption: The bill eliminates provisions that expire local income tax rates each year.

Municipal LIT Population Thresholds: The bill modifies the population threshold required for a city or town to impose a municipal LIT rate.

Fire/EMS Rate: The bill modifies the formula used to determine distribution amounts of revenue from a tax rate imposed for fire protection and emergency medical services.

Effective Date: July 1, 2027.

Explanation of State Expenditures: *LIT Rate Re-Adoption:* The DLGF will experience a decrease in workload. The DLGF will no longer need to review LIT rate re-adoption ordinances from all counties and certain municipalities (that choose to enact a LIT rate) on an annual basis.

Explanation of State Revenues:

Explanation of Local Expenditures: *LIT Rate Re-Adoption:* This provision will result in a minor decrease in workload for county and municipal fiscal bodies. Additionally, this provision may potentially provide

greater surety to lending institutions, resulting in lower borrowing cost for local units that have debt paid by LIT revenues.

Explanation of Local Revenues: Rates for New LIT: While this change does not impact the overall total LIT rate cap (excluding any special purpose LIT rate where applicable) of 2.9%, it does change the caps of the individual components of the total LIT rate starting in CY 2028 as follows:

- County services rate decreases from 1.2% to 0.7%
- Fire/EMS rate decreases from 0.4% to 0.2%
- Municipal rate increases from 1.2% to 1.9%

Based on the projected CY 2028 countywide LIT base estimates, the decrease in the county services rate cap from 1.2% to 0.7% could result in a reduction of \$1.42 B in LIT revenue capacity for CY 2028. Similarly, the decrease in the fire/EMS rate cap from 0.4% to 0.2% could result in a reduction \$566.6 M in LIT revenue capacity for CY 2028. For the municipal rate increase, since municipalities are not yet allowed to adopt their own municipal LIT rate under the current LIT structure, accurate LIT base data for cities and towns is not currently available.

While this bill does not impact the overall rate cap for non-municipal units of 0.2%, it does remove the cap of 0.05% for each type of non-municipal civil taxing unit. This change may result in more non-municipal LIT revenue being allocated to certain types of non-municipal units (e.g., townships, libraries) and less revenue to other types of non-municipal units. The actual fiscal impact will depend on the decision of the county fiscal body on how they choose to allocate this revenue among the different types of non-municipal units.

Fire/EMS Rate: These provisions may result in a decrease in fire/EMS LIT revenue for municipal fire departments. They are removed from the list of entities that are - by default - to receive a distribution of revenue generated from a county-adopted fire/EMS LIT rate. Instead, municipal fire departments would be included in the entities that the county council may choose to include in the distribution at their discretion. Additionally, the change in the fire/EMS LIT revenue distribution formula will not impact the distribution amounts to the individual service providers.

Municipal LIT Population Thresholds: This change increases the number of municipalities that may potentially adopt their own individual municipal LIT rate as opposed to receiving a revenue distribution from a municipal LIT rate adopted by the county fiscal body. Based on the 2020 Census, there would be an additional 64 municipalities that could qualify for adopting their own individual municipal LIT rate, as opposed to receiving a distribution from a municipal LIT rate adopted by the county fiscal body. Additionally, after CY 2030, the bill changes the source for determining the population of municipalities from the federal decennial census to distribution factors reports prepared by the State Comptroller.

State Agencies Affected: Department of Local Government Finance; State Comptroller.

Local Agencies Affected: County and municipal fiscal bodies; Local civil taxing units and school corporations.

Information Sources: 2020 U.S. Census data; CY 2026 LIT Distributions Certified November 25, 2025:<https://www.in.gov/sba/files/2026-Certification-Calculations-November-Release.pdf>.

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