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

LS 7072
BILL NUMBER: SB 243

NOTE PREPARED: Jan 28, 2026
BILL AMENDED: Jan 20, 2026

SUBJECT: Various Tax Matters.

FIRST AUTHOR: Sen. Holdman
FIRST SPONSOR: Rep. Thompson

BILL STATUS: As Passed Senate

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: *Internal Revenue Code Update:* The bill amends and adds state income tax statutes to conform with certain provisions enacted in Public Law 119-21 (H.R. 1) (commonly known as One Big Beautiful Bill Act of 2025). It amends state income tax withholding provisions for gambling winnings. It amends the definition of "contribution" for purpose of the state income tax credit for contributions to an ABLE account. It amends provisions regarding computation of specified research or experimental expenditures.

Penny Phaseout: The bill provides rounding provisions for cash transactions.

Electronic Notices: It authorizes the Department of State Revenue (department) to mail documents electronically through its online tax system. It allows taxpayers to request to receive all documents from the department through the department's online tax system.

Tax Warrants: It makes changes to certain tax warrant procedures.

RAR Adjustments: It extends the deadline for filing revenue agent report (RAR) adjustments from 180 days to one year from the Internal Revenue Service's finalization of the federal adjustments. It amends the statute of limitations for issuing assessments and refunds based on an RAR to one year.

Sales Tax Enforcement: It adds certain sales tax enforcement provisions regarding motor vehicles, cargo trailers, aircraft, and watercraft.

Disclosure: It amends provisions regarding confidentiality of tax information.

Technical Changes: It makes various changes to the cigarette tax chapter, the petroleum severance tax chapter, and the alcoholic beverage excise tax chapters.

Responsible Person: It specifies the liability of responsible persons for trust fund taxes. It defines the term "responsible person" with regard to trust fund taxes.

Adoption Credit: It clarifies application of the Indiana adoption tax credit.

Pass Through Entity Tax: It revises provisions in the pass through entity tax regarding credit for taxes paid to another state.

Tax Amnesty: It amends provisions in the tax amnesty program.

Estimated Tax Penalty: It specifies the determination of estimated tax penalties.

Aircraft License Excise Tax: It makes amending changes to the aircraft license excise tax.

Effective Date: Upon passage; January 1, 2022 (retroactive); July 1, 2023 (retroactive); January 1, 2025. (retroactive); July 4, 2025 (retroactive); January 1, 2026 (retroactive); July 1, 2026; January 1, 2027.

Explanation of State Expenditures: *Department of State Revenue (DOR):* The DOR will incur expenses to put the bill's changes in place. The DOR should be able to make these changes within current resource levels.

Electronic Notices: The bill would reduce the DOR's expenditures on paper mailings by an estimated $700,000. Actual cost savings could be greater, depending on the number of taxpayers that opt into electronic notifications.

[The DOR estimates that the bill could eliminate roughly 824,000 mailed letters. The bill could reduce additional mailed notices depending on taxpayer decisions. The DOR's marginal cost for mailing notices is $0.85 per letter.]

Tax Warrants: The bill would reduce the DOR's cost of tax warrant registration by an estimated $90,000 to $150,000 each year beginning in FY 2027. Under current law, the DOR is required to file a tax warrant in each county where a taxpayer owns property. The bill would allow the DOR to file one tax warrant for each taxpayer.

[The DOR reports that they registered between 30,000 and 50,000 repeat tax warrants in 2024. The cost of registration is $3 per warrant.]

Explanation of State Revenues: *Internal Revenue Code:* The bill updates the reference to Internal Revenue Code (IRC) for income tax provisions within Indiana Code from January 1, 2023, to January 1, 2026. This updates the federal IRC reference to include H.R.1-2025, which was signed into law as Public Law No. 119-21 on July 4, 2025. The bill also requires add back of a special depreciation allowance provided in Public Law No. 119-21. Updating the reference for the provisions in the bill will result in net revenue loss to the state General Fund of about $5.3 M in FY 2026, $23.9 M in FY 2027, and $36.6 M in FY 2028. The fiscal impact will continue in future years.

Tips, Overtime, Car Loan Interest Deduction: Federal P.L 119-21, 2025 provided federal income tax deductions for qualified: (1) tips; (2) overtime; and (3) auto loan interest. For tax year 2026, this bill provides a deduction from state adjusted gross income equal to the amount deducted for federal tax purposes. Since these provisions would reduce the amount of Indiana taxable income, the deductions would result in reduced state General Fund revenue from individual income tax. The revenue loss to individual income tax would be $28.9 M to $34.7 M for deduction of tips income, $61.2 M to $98.1 M for deduction of overtime income, and $18.9 M for deduction of auto loan interest payment. The revenue loss is estimated to occur in FY 2027. However, if taxpayers adjust their withholding, a portion of the impact will occur in FY 2026.

Tax Amnesty: The bill could result in an increase in tax amnesty revenue of an estimated $15 M to $55 M in FY 2027. Most of this revenue would be deposited in the General Fund. These estimates are based on data from the 2015 tax amnesty program and information provided by the DOR.

Penny Phaseout: The bill would result in a significant reduction in revenue from state taxes, fees, and fines beginning in the second half of FY 2027. It requires all amounts to be rounded down to the nearest $0.05 for cash transactions. The estimated annual reduction in sales tax revenue is $1.4 M to $2.0 M. The total amount of revenue loss would be greater and would depend on the number of cash transactions. Each transaction could be reduced by up to $0.04.

[State taxes, fees, fines, and miscellaneous revenue totaled $30,596.6 M in FY 2025. Sales and use tax is the largest source of state tax revenue.]

Adoption Tax Credit: The bill reduces the adoption credit for part-year Indiana residents based on the proportion of the year that they were residents of Indiana. The change will increase state General Fund revenue by an estimated $130,000 due to amended returns for tax years 2022-2024, and by around $50,000 annually for tax years 2025 and beyond. The revenue impact will begin in FY 2026.

Sales Tax Enforcement: The bill provides guidelines and investigative powers to DOR to enforce sales and use tax laws in cases where a taxpayer has evaded paying taxes by purchasing a motor vehicle as a business entity registered in another state that provides an exemption, while using the vehicle in Indiana. The provision will improve tax compliance, resulting in a potentially significant increase in sales tax revenue.

RAR Adjustments: Extending the taxpayer's deadline for filing RAR adjustments from 180 days to 1 year provides taxpayers more time and clarity in filing amended returns and could change the assessment and refund issued by the DOR. The provision will be effective beginning tax year 2026. The fiscal impact from the provision is indeterminable.

Withholding of Gambling Wins: Under current law, Indiana requires gambling winning related withholding to occur at winnings valued at $1,200 or more. Starting in 2026, the bill changes these requirements for withholding to occur at $2,000 or more, adjusted for inflation in future years. Increasing the withholding threshold could reduce the level of compliance, resulting in revenue loss. Any fiscal impact is indeterminable but estimated to be minimal.

Other Changes Related to Public Law No. 119-21: For purpose of Indiana 529 tax credits, the bill excludes certain transfers in a qualified ABLE rollover contribution to be defined as a contribution to an Indiana ABLE 529A savings account. This is a clarification that will not have any fiscal impact. The changes in the bill related to the federal tax exemption for student loan discharges due to death or total and permanent disability will result in continuation of current Indiana law. The provisions in the bill related to specified research or experimental expenditures make changes to Indiana code in relation to changes in Section 174 by P.L. 119-21-2025. These provisions will not have any fiscal impact.

Responsible Person: These provisions are not expected to have a significant fiscal impact. The bill clarifies liability and refund provisions for taxes held in trust, which includes several state and local taxes remitted to the DOR.

Estimated Tax Penalty: The bill clarifies that the penalty provision for estimated payments related to various income taxes are based on a rate. This is a technical correction with no fiscal impact.

Pass Through Entity Tax (PTET): The bill makes a technical correction to a PTET provision allowing credits for out of state income tax payment to be applied to PTET. This is a technical correction reflecting DOR's current practices.

Technical Changes: The bill recodifies certain sections of Indiana code related to cigarette tax, petroleum severance tax, and alcoholic beverage tax. These provisions will not have any fiscal impact.

<u>Additional Information</u> -

Internal Revenue Code: Under Indiana Code 6-3-1-3.5, the calculation of state income tax begins with federal adjusted gross income (AGI) for individuals and with federal taxable income for corporations. Federal AGI is defined by IRC Section 62, and taxable income is defined by IRC Section 63. The current reference to the IRC pertains to all IRC provisions amended and in effect on January 1, 2023. Starting in tax year 2026, the bill changes the reference to January 1, 2026.

All federal tax provisions above federal AGI for individuals and federal taxable income for corporations impact Indiana tax liability calculations unless Indiana statutes do not conform with the federal tax provision. This bill generally conforms with above-the-line provisions in Public Law No. 119-21, with the exception of provisions where Indiana statutes have decoupled with federal tax provisions in the past. The bill also requires an add back of depreciation allowance for qualified production property to federal adjusted gross income in determining taxable state adjusted gross income. This will result in disallowing the special depreciation for purposes of the adjusted gross income tax and the financial institutions tax.

The changes in the bill impact individuals, pass-through entities, and corporations. The fiscal impact is on both state individual and corporate income taxes, which are deposited into the state General Fund. Some of the major provisions impacted by the revenue code update do the following:
- Disallow special depreciation for qualified production property placed in service,
- Incorporate permanent renewal and enhancement of opportunity zones,
- Make changes to determination of deduction eligible income,
- Repeal revision to de minimis rules for third party network transactions,
- Include changes to sourcing certain income from the sale of inventory produced in the United States, and
- Change treatment of certain payments from partnership to partners.

Tips, Overtime, Car Loan Interest Deduction: Federal taxpayers take these deductions after federal adjusted gross income (AGI) is calculated. Since Indiana individual income tax starts from the base of federal AGI, these federal tax changes will not affect Indiana state income tax revenue collections. For purpose of tax year 2026, this bill couples Indiana laws with these federal provisions and allows Indiana taxpayers to claim these deductions from state and local income tax. The total fiscal impact from these deductions will be between $109.0 M to $151.7 M.

Tax Amnesty: The bill makes the following changes to the 2026 tax amnesty program:
- Includes tax liabilities incurred in 2023. Current law includes taxes due before January 1, 2023. This provision could increase revenue by an estimated $15 M to $55 M.
- Provides that revenue collected for each tax will be distributed in the same manner as a payment of the tax. Current law specifies the distribution of certain taxes and deposits the remaining amounts in the

General Fund. This provision could reduce General Fund revenue and increase revenue to state dedicated funds, depending on which taxes are collected. Assuming the same mix of tax types that were collected in 2015, the shift could be around $0.4 M to $0.6 M.

- Provides that certain taxpayers will not be liable for an additional penalty. This provision could reduce penalty revenue by an indeterminate amount.

Explanation of Local Expenditures:

Explanation of Local Revenues: *Internal Revenue Code:* To the extent that some of these provisions would impact adjusted gross income for individual taxpayers, counties imposing a local income tax (LIT) could potentially experience a decrease in LIT revenue. The net revenue loss is estimated to be $0.8 M in FY 2026, $0.9 M in FY 2027, and $3.7 M in FY 2028. The fiscal impact will continue in future years.

Tips, Overtime, Car Loan Interest Deduction: Since these provisions will reduce adjusted gross income for individual taxpayers, counties imposing a local income tax (LIT) will experience revenue loss of $16.4 M to $19.4 M for tips deduction, $34.6 M to $55.5 M for overtime deduction, and $10.7 M for interest deduction in FY 2027.

Tax Amnesty: The bill could increase tax amnesty revenue distributed to local units by an estimated $0.4 M to $1.4 M.

Penny Phaseout: The bill would result in an indeterminate reduction in revenue from local taxes, fees, and fines beginning in CY 2027. It requires all amounts to be rounded down to the nearest $0.05 for cash transactions. The amount of the revenue loss would depend on the number of cash transactions in each local unit. Each transaction could be reduced by up to $0.04.

Tax Warrants: The bill would reduce the number of tax warrants the DOR would need to register with county clerks beginning in FY 2027. It would reduce the annual amount of fees that county clerks collect by an estimated $90,000 to $150,000 statewide.

Aircraft License Excise Tax: The bill expands eligibility of a credit provided against aircraft license excise tax under current law. Currently the credit is provided to veterans with disability, the bill will include certain other types of aircrafts to qualify for the credit. This provision will increase the amount of credit, reducing the aircraft license excise tax revenues local units receive.

State Agencies Affected: All.

Local Agencies Affected: All.

Information Sources: IRS Publication, https://www.irs.gov/newsroom/one-big-beautiful-bill-provisions; OFMA Income Tax Database; Department of State Revenue, Indiana Tax Amnesty 2015 Final Report. Legislative Services Agency, *Indiana Handbook of Taxes, Revenues, and Appropriations*, FY 2025. Federal Reserve Financial Services, 2025 Findings from the Diary of Consumer Payment Choice, https://www.frbservices.org/binaries/content/assets/crsocms/news/research/2025-diary-of-consumer-payment-choice.pdf.

Fiscal Analyst: Randhir Jha, 317-232-9556; Lauren Tanselle, 317-232-9586; Camille Tesch, 317-232-5293.