

## SENATE BILL No. 259

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### DIGEST OF INTRODUCED BILL

**Citations Affected:** IC 6-3; IC 6-8.1.

**Synopsis:** Partnership composite returns. Removes a penalty provision that applies if a pass through entity fails to include all nonresident partners, shareholders, or beneficiaries in a composite return. Makes conforming changes.

**Effective:** Upon passage.

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## Baldwin

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January 8, 2026, read first time and referred to Committee on Tax and Fiscal Policy.

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Introduced

Second Regular Session of the 124th General Assembly (2026)

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 2025 Regular Session of the General Assembly.

## SENATE BILL No. 259

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

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

1 SECTION 1. IC 6-3-2-3.3, AS ADDED BY P.L.230-2025,  
2 SECTION 69, IS AMENDED TO READ AS FOLLOWS [EFFECTIVE  
3 UPON PASSAGE]: Sec. 3.3. (a) As used in this section, "nonresident  
4 partner" has the meaning set forth in ~~IC 6-3-4-12(n)~~. **IC 6-3-4-12(m)**.

5 (b) For all taxable years beginning after December 31, 2025, in the  
6 case of an investment partnership:

7 (1) any qualifying investment partnership income that is  
8 distributable to a nonresident partner shall be allocated to the  
9 partner's state of residence (in the case of an individual, estate, or  
10 trust) or commercial domicile (in the case of any corporation or  
11 other entity) for purposes of section 2 of this chapter; and

12 (2) any qualifying investment partnership income that is  
13 distributable to a nonresident partner shall be treated as business  
14 income and apportioned as if such income had been received  
15 directly by the partner if such income is from investment activity:

16 (A) that is directly or integrally related to any other business  
17 activity conducted in this state by the nonresident partner (or



1 another corporation or entity that is unitary with the partner);  
2 (B) that serves an operational function to any other business  
3 activity of the nonresident partner (or another corporation or  
4 entity that is unitary with the partner); or  
5 (C) where assets of the investment partnership were acquired  
6 with working capital from a trade or business activity  
7 conducted in this state in which the nonresident partner (or  
8 another corporation or entity that is unitary with the partner)  
9 owns an interest.

10 (c) For purposes of this section, the following apply:  
11 (1) If an entity is permitted to allocate qualifying investment  
12 partnership income under subsection (b)(1), the entity shall  
13 exclude the receipts derived from the investment partnership and  
14 attributable to the investment partnership income from the  
15 denominator of the sales factor in section 2(e) of this chapter.  
16 (2) If an entity is required to treat qualifying investment  
17 partnership income as apportionable income, the entity's share of  
18 receipts from the investment partnership and attributable to the  
19 investment partnership shall be included in the denominator of  
20 the sales factor and attributed to the entity's state of domicile for  
21 purposes of section 2(e) of this chapter.  
22 (3) For purposes of subsection (b)(2), a corporation or other entity  
23 shall be treated as unitary with the partner if the partner and the  
24 corporation or other entity would be required to be included in a  
25 combined income tax return under this article, determined as if all  
26 relevant entities are subject to tax under this article as  
27 corporations and are not corporations described in section 2.4 of  
28 this chapter. However, in the case of a partner and a corporate  
29 partnership, a unitary relationship shall be determined without  
30 regard to the corporate partner's percentage of ownership of the  
31 partnership.  
32 (4) Nothing in this section shall affect the apportionment and  
33 allocation of income and receipts derived from partnerships other  
34 than qualified investment partnership income from investment  
35 partnerships.  
36 (5) If a nonresident person, corporation, or other entity reasonably  
37 determines that it received qualified investment partnership  
38 income from an investment partnership and the partnership is  
39 determined to not be an investment partnership, the person,  
40 corporation, or entity shall be relieved of any penalty under  
41 IC 6-3-4-4.1, IC 6-5.5-7-1, or IC 6-8.1-10-2.1(b) resulting from  
42 the underpayment.



1 SECTION 2. IC 6-3-2.1-2, AS AMENDED BY P.L.194-2023,  
2 SECTION 19, IS AMENDED TO READ AS FOLLOWS [EFFECTIVE  
3 UPON PASSAGE]: Sec. 2. The following definitions apply throughout  
4 this chapter:

5 (1) "Electing entity" means a pass through entity described in  
6 IC 6-3-1-35 that is subject to Subchapter K or Subchapter S of the  
7 Internal Revenue Code and makes the election under this chapter.

8 (2) "Entity owner" means the direct or indirect owners of an  
9 electing entity that are ultimately taxable on the entity's income  
10 under Subchapter K or Subchapter S of the Internal Revenue  
11 Code, except an owner described in subdivision (4)(A) through  
12 (4)(C).

13 (3) "Nonresident" means:

14 (A) a nonresident partner as defined by ~~IC 6-3-4-12(n);~~  
15 **IC 6-3-4-12(m);**

16 (B) a nonresident shareholder as defined by ~~IC 6-3-4-13(n);~~  
17 **IC 6-3-4-13(m);**

18 (C) a nonresident beneficiary as defined by IC 6-3-4-15(i); or

19 (D) in the case of a shareholder of a corporation described in  
20 IC 6-3-2-2.8(2), a corporation described in Section 501(c)(3)  
21 of the Internal Revenue Code that is exempt from taxation  
22 under Section 501(a) of the Internal Revenue Code and that is  
23 not domiciled in Indiana;

24 whichever is applicable.

25 (4) "Owner" means a direct or indirect owner of an electing entity  
26 and includes a beneficiary of an estate or trust. However an owner  
27 shall not include:

28 (A) an entity described in IC 6-3-2-2.8(3) that is not a  
29 partnership, a trust, or a corporation described in  
30 IC 6-3-2-2.8(2);

31 (B) an entity described in IC 6-3-2-2.8(5); or

32 (C) any other entity as determined by the department and listed  
33 in instructions or guidance issued by the department.

34 (5) "Resident" means a partner, shareholder, or beneficiary:

35 (A) that, in the case of an individual, estate, or trust, is a  
36 resident of Indiana as defined in IC 6-3-1-12; or

37 (B) that is a partnership or corporation, including a corporation  
38 described in IC 6-3-2-2.8(1) or IC 6-3-2-2.8(2), that is  
39 domiciled in Indiana.

40 SECTION 3. IC 6-3-4-12, AS AMENDED BY P.L.1-2023,  
41 SECTION 8, IS AMENDED TO READ AS FOLLOWS [EFFECTIVE  
42 UPON PASSAGE]: Sec. 12. (a) Every partnership shall, at the time



1 that the partnership pays or credits amounts to any of its nonresident  
2 partners on account of their distributive shares of partnership income,  
3 for a taxable year of the partnership, deduct and retain therefrom the  
4 amount prescribed in the withholding instructions referred to in section  
5 8 of this chapter. Such partnership so paying or crediting any  
6 nonresident partner:

7 (1) shall be liable to the state of Indiana for the payment of the tax  
8 required to be deducted and retained under this section and shall  
9 not be liable to such partner for the amount deducted from such  
10 payment or credit and paid over in compliance or intended  
11 compliance with this section; and

12 (2) shall make return of and payment to the department monthly  
13 whenever the amount of tax due under IC 6-3 and IC 6-3.6  
14 exceeds an aggregate amount of fifty dollars (\$50) per month with  
15 such payment due on the thirtieth day of the following month,  
16 unless an earlier date is specified by section 8.1 of this chapter.

17 Where the aggregate amount due under IC 6-3 and IC 6-3.6 does not  
18 exceed fifty dollars (\$50) per month, then such partnership shall make  
19 return and payment to the department quarterly, on such dates and in  
20 such manner as the department shall prescribe, of the amount of tax  
21 which, under IC 6-3 and IC 6-3.6, it is required to withhold. If a  
22 partnership credits a partner with pass through entity tax imposed  
23 under IC 6-3-2.1, the withholding required for that partner under this  
24 section shall be reduced by the tax credited to the partner under  
25 IC 6-3-2.1, but in no event shall the tax required to be withheld be  
26 reduced to less than zero dollars (\$0).

27 (b) Every partnership shall, at the time of each payment made by it  
28 to the department pursuant to this section, deliver to the department a  
29 return upon such form as shall be prescribed by the department  
30 showing the total amounts paid or credited to its nonresident partners,  
31 the amount deducted therefrom in accordance with the provisions of  
32 this section, and such other information as the department may require.  
33 Every partnership making the deduction and retention provided in this  
34 section shall furnish to its nonresident partners annually, but not later  
35 than the fifteenth day of the third month after the end of its taxable  
36 year, a record of the amount of tax deducted and retained from such  
37 partners on forms to be prescribed by the department.

38 (c) All money deducted and retained by the partnership, as provided  
39 in this section, shall immediately upon such deduction be the money of  
40 the state of Indiana and every partnership which deducts and retains  
41 any amount of money under the provisions of IC 6-3 shall hold the  
42 same in trust for the state of Indiana and for payment thereof to the



1 department in the manner and at the times provided in IC 6-3. Any  
2 partnership may be required to post a surety bond in such sum as the  
3 department shall determine to be appropriate to protect the state of  
4 Indiana with respect to money deducted and retained pursuant to this  
5 section.

6 (d) The provisions of IC 6-8.1 relating to additions to tax in case of  
7 delinquency and penalties shall apply to partnerships subject to the  
8 provisions of this section, and for these purposes any amount deducted,  
9 or required to be deducted and remitted to the department under this  
10 section, shall be considered to be the tax of the partnership, and with  
11 respect to such amount it shall be considered the taxpayer.

12 (e) Amounts deducted from payments or credits to a nonresident  
13 partner during any taxable year of the partnership in accordance with  
14 the provisions of this section shall be considered to be in part payment  
15 of the tax imposed on such nonresident partner for the nonresident  
16 partner's taxable year within or with which the partnership's taxable  
17 year ends. A return made by the partnership under subsection (b) shall  
18 be accepted by the department as evidence in favor of the nonresident  
19 partner of the amount so deducted for the nonresident partner's  
20 distributive share.

21 (f) This section shall in no way relieve any nonresident partner from  
22 the nonresident partner's obligations of filing a return or returns at the  
23 time required under IC 6-3 or IC 6-3.6, and any unpaid tax shall be paid  
24 at the time prescribed by section 5 of this chapter.

25 (g) Instead of the reporting periods required under subsection (a),  
26 the department may permit a partnership to file one (1) return and  
27 payment each year if the partnership pays or credits amounts to its  
28 nonresident partners only one (1) time each year. The return and  
29 payment are due on or before the fifteenth day of the fourth month after  
30 the end of the year. However, if a partnership is permitted an extension  
31 to file its income tax return under IC 6-8.1-6-1, the return and payment  
32 due under this subsection shall be allowed the same treatment as an  
33 extended income tax return with respect to due dates, interest, and  
34 penalties under IC 6-8.1-6-1.

35 (h) If a partnership fails to withhold and pay any amount of tax  
36 required to be withheld under this section and thereafter the tax is paid  
37 by the partners, the amounts of tax as paid by the partners shall not be  
38 collected from the partnership but it may not be relieved from liability  
39 for interest or penalty otherwise due in respect to the failure to  
40 withhold under IC 6-8.1-10.

41 (i) A partnership shall file a composite adjusted gross income tax  
42 return on behalf of all nonresident partners. The composite return must



1 include each nonresident partner regardless of whether or not the  
 2 nonresident partner has other Indiana source income.

3 ~~(f) If a partnership does not include all nonresident partners in the  
 4 composite return, the partnership is subject to the penalty imposed  
 5 under IC 6-8.1-10-2.1(j).~~

6 ~~(f) (j) For taxable years beginning after December 31, 2013, the  
 7 department may not impose a late payment penalty on a partnership for  
 8 the failure to file a return, pay the full amount of the tax shown on the  
 9 partnership's return, or pay the deficiency of the withholding taxes due  
 10 under this section if the partnership pays the department before the  
 11 fifteenth day of the fourth month after the end of the partnership's  
 12 taxable year at least:~~

13 ~~(1) eighty percent (80%) of the withholding tax due for the  
 14 current year; or~~

15 ~~(2) one hundred percent (100%) of the withholding tax due for the  
 16 preceding year.~~

17 ~~(f) (k) Notwithstanding subsection (a) or (i), a partnership is not  
 18 required to withhold tax or file a composite adjusted gross income tax  
 19 return for a nonresident partner if the partnership:~~

20 ~~(1) is a publicly traded partnership as defined by Section 7704(b)  
 21 of the Internal Revenue Code;~~

22 ~~(2) meets the exception for partnerships under Section 7704(c) of  
 23 the Internal Revenue Code; and~~

24 ~~(3) has agreed to file an annual information return reporting the  
 25 name, address, taxpayer identification number, and other  
 26 information requested by the department of each unit holder.~~

27 The department may issue written guidance explaining circumstances  
 28 under which limited partnerships or limited liability companies owned  
 29 by a publicly traded partnership may be excluded from the withholding  
 30 requirements of this section.

31 ~~(m) (l) Notwithstanding subsection (k), (j), a partnership is subject  
 32 to a late payment penalty for the failure to file a return, pay the full  
 33 amount of the tax shown on the partnership's return, or pay the  
 34 deficiency of the withholding taxes due under this section for any  
 35 amounts of withholding tax, including any interest under IC 6-8.1-10-1,  
 36 reported or paid after the due date of the return, as adjusted by any  
 37 extension under IC 6-8.1-6-1.~~

38 ~~(m) (m) For purposes of this section, a "nonresident partner" is:~~

39 ~~(1) an individual who does not reside in Indiana;~~

40 ~~(2) a trust that does not reside in Indiana;~~

41 ~~(3) an estate that does not reside in Indiana;~~

42 ~~(4) a partnership not domiciled in Indiana;~~



3 SECTION 4. IC 6-3-4-13, AS AMENDED BY P.L.1-2023,  
4 SECTION 9, IS AMENDED TO READ AS FOLLOWS [EFFECTIVE  
5 UPON PASSAGE]: Sec. 13. (a) Every corporation which is exempt  
6 from tax under IC 6-3 pursuant to IC 6-3-2-2.8(2) shall, at the time that  
7 it pays or credits amounts to any of its nonresident shareholders as  
8 dividends or as their share of the corporation's undistributed taxable  
9 income, withhold the amount prescribed by the department. Such  
10 corporation so paying or crediting any nonresident shareholder:

15 (2) when the aggregate amount due under IC 6-3 and IC 6-3.6  
16 exceeds one hundred fifty dollars (\$150) per quarter, then such  
17 corporation shall make return and payment to the department  
18 quarterly, on such dates and in such manner as the department  
19 shall prescribe, of the amount of tax which, under IC 6-3 and  
20 IC 6-3.6, it is required to withhold.

If a corporation credits a shareholder with pass through entity tax imposed under IC 6-3-2.1, the withholding required for that shareholder under this section shall be reduced by the tax credited to the shareholder under IC 6-3-2.1, but in no event shall the tax required to be withheld be reduced to less than zero dollars (\$0).

(b) Every corporation shall, at the time of each payment made by it to the department pursuant to this section, deliver to the department a return upon such form as shall be prescribed by the department showing the total amounts paid or credited to its nonresident shareholders, the amount withheld in accordance with the provisions of this section, and such other information as the department may require. Every corporation withholding as provided in this section shall furnish to its nonresident shareholders annually, but not later than the fifteenth day of the third month after the end of its taxable year, a record of the amount of tax withheld on behalf of such shareholders on forms to be prescribed by the department.

37 (c) All money withheld by a corporation, pursuant to this section,  
38 shall immediately upon being withheld be the money of the state of  
39 Indiana and every corporation which withholds any amount of money  
40 under the provisions of this section shall hold the same in trust for the  
41 state of Indiana and for payment thereof to the department in the  
42 manner and at the times provided in IC 6-3. Any corporation may be



1 required to post a surety bond in such sum as the department shall  
2 determine to be appropriate to protect the state of Indiana with respect  
3 to money withheld pursuant to this section.

4 (d) The provisions of IC 6-8.1 relating to additions to tax in case of  
5 delinquency and penalties shall apply to corporations subject to the  
6 provisions of this section, and for these purposes any amount withheld,  
7 or required to be withheld and remitted to the department under this  
8 section, shall be considered to be the tax of the corporation, and with  
9 respect to such amount it shall be considered the taxpayer.

10 (e) Amounts withheld from payments or credits to a nonresident  
11 shareholder during any taxable year of the corporation in accordance  
12 with the provisions of this section shall be considered to be a part  
13 payment of the tax imposed on such nonresident shareholder for the  
14 shareholder's taxable year within or with which the corporation's  
15 taxable year ends. A return made by the corporation under subsection  
16 (b) shall be accepted by the department as evidence in favor of the  
17 nonresident shareholder of the amount so withheld from the  
18 shareholder's distributive share.

19 (f) This section shall in no way relieve any nonresident shareholder  
20 from the shareholder's obligation of filing a return or returns at the time  
21 required under IC 6-3 or IC 6-3.6, and any unpaid tax shall be paid at  
22 the time prescribed by section 5 of this chapter.

23 (g) Instead of the reporting periods required under subsection (a),  
24 the department may permit a corporation to file one (1) return and  
25 payment each year if the corporation pays or credits amounts to its  
26 nonresident shareholders only one (1) time each year. The withholding  
27 return and payment are due on or before the fifteenth day of the fourth  
28 month after the end of the taxable year of the corporation. However, if  
29 a corporation is permitted an extension to file its income tax return  
30 under IC 6-8.1-6-1, the return and payment due under this subsection  
31 shall be allowed the same treatment as the extended income tax return  
32 with respect to the due dates, interest, and penalties under IC 6-8.1-6-1.

33 (h) If a distribution will be made with property other than money or  
34 a gain is realized without the payment of money, the corporation shall  
35 not release the property or credit the gain until it has funds sufficient  
36 to enable it to pay the tax required to be withheld under this section. If  
37 necessary, the corporation shall obtain such funds from the  
38 shareholders.

39 (i) If a corporation fails to withhold and pay any amount of tax  
40 required to be withheld under this section and thereafter the tax is paid  
41 by the shareholders, such amount of tax as paid by the shareholders  
42 shall not be collected from the corporation but it shall not be relieved



1 from liability for interest or penalty otherwise due in respect to such  
 2 failure to withhold under IC 6-8.1-10.

3 (j) A corporation described in subsection (a) shall file a composite  
 4 adjusted gross income tax return on behalf of all nonresident  
 5 shareholders. The composite return must include each nonresident  
 6 shareholder regardless of whether or not the nonresident shareholder  
 7 has other Indiana source income.

8 ~~(k) If a corporation described in subsection (a) does not include all  
 9 nonresident shareholders in the composite return, the corporation is  
 10 subject to the penalty imposed under IC 6-8.1-10-2.1(j).~~

11 (l) (k) For taxable years beginning after December 31, 2013, the  
 12 department may not impose a late payment penalty on a corporation for  
 13 the failure to file a return, pay the full amount of the tax shown on the  
 14 corporation's return, or pay the deficiency of the withholding taxes due  
 15 under this section if the corporation pays the department before the  
 16 fifteenth day of the fourth month after the end of the partnership's  
 17 taxable year at least:

18 (1) eighty percent (80%) of the withholding tax due for the  
 19 current year; or

20 (2) one hundred percent (100%) of the withholding tax due for the  
 21 preceding year.

22 (m) (l) Notwithstanding subsection (l), (k), a corporation is subject  
 23 to a late payment penalty for the failure to file a return, pay the full  
 24 amount of the tax shown on the corporation's return, or pay the  
 25 deficiency of the withholding taxes due under this section for any  
 26 amounts of withholding tax, including any interest under IC 6-8.1-10-1,  
 27 reported or paid after the due date of the return, as adjusted by any  
 28 extension under IC 6-8.1-6-1.

29 (m) (m) For purposes of this section, a "nonresident shareholder" is:

30 (1) an individual who does not reside in Indiana;

31 (2) a trust that does not reside in Indiana; or

32 (3) an estate that does not reside in Indiana.

33 SECTION 5. IC 6-3-4.5-1, AS AMENDED BY P.L.80-2025,  
 34 SECTION 3, IS AMENDED TO READ AS FOLLOWS [EFFECTIVE  
 35 UPON PASSAGE]: Sec. 1. The following definitions apply throughout  
 36 this chapter:

37 (1) "Adjustment year" means the partnership taxable year  
 38 described in Section 6225(d)(2) of the Internal Revenue Code.

39 (2) "Administrative adjustment request" means an administrative  
 40 adjustment request filed by a partnership under Section 6227 of  
 41 the Internal Revenue Code.

42 (3) "Affected year" means any taxable year for a taxpayer that is



1 affected by an adjustment under this chapter, regardless of  
2 whether the partnership has received an adjustment for that  
3 taxable year.

4 (4) "Audited partnership" means a partnership subject to a  
5 partnership level audit resulting in a federal adjustment.

6 (5) "Corporate partner" means a partner that is subject to the state  
7 adjusted gross income tax under IC 6-3-2-1(c) or the financial  
8 institutions tax under IC 6-5.5-2-1. In the case of a partner that is  
9 a corporation described in IC 6-3-2-2.8(2) that also is subject to  
10 tax under IC 6-3-2-1(c), the corporation is a corporate partner  
11 only to the extent that its income is subject to tax under  
12 IC 6-3-2-1(c).

13 (6) "Direct partner" means a partner that holds an interest directly  
14 in a partnership or pass through entity.

15 (7) "Exempt partner" means a partner that is exempt from the  
16 adjusted gross income tax under IC 6-3-2-2.8(1) or the financial  
17 institutions tax under IC 6-5.5-2-7(4), except to the extent of  
18 unrelated business taxable income.

19 (8) "Federal adjustment" means a change to an item or amount  
20 determined under the Internal Revenue Code or a change to any  
21 other tax attribute that is used by a taxpayer to compute state  
22 adjusted gross income taxes or financial institutions tax owed,  
23 whether that change results from action by the Internal Revenue  
24 Service, including a partnership level audit, or the filing of an  
25 amended federal return, a federal refund claim, or an  
26 administrative adjustment request by the taxpayer. A federal  
27 adjustment is positive to the extent that it increases state adjusted  
28 gross income as determined under IC 6-3 or IC 6-5.5 and is  
29 negative to the extent that it decreases state adjusted gross income  
30 as determined under IC 6-3 or IC 6-5.5.

31 (9) "Federal adjustment reports" includes methods or forms  
32 required by the department for use by a taxpayer to report final  
33 federal adjustments for purposes of this chapter, including an  
34 amended Indiana tax return, information return, or uniform  
35 multistate report.

36 (10) "Federal partnership representative" means a person the  
37 partnership designates for the taxable year as the partnership's  
38 representative, or the person the Internal Revenue Service has  
39 appointed to act as the federal partnership representative,  
40 pursuant to Section 6223(a) of the Internal Revenue Code.

41 (11) "Final determination date" means the following:

42 (A) Except as provided in clause (B) or (C), if the federal



1                   adjustment arises from an Internal Revenue Service audit or  
2                   other action by the Internal Revenue Service, the final  
3                   determination date is the date on which the federal adjustment  
4                   is a final determination under IC 6-3-4-6(d).

5                   (B) For federal adjustments arising from an Internal Revenue  
6                   Service audit or other action by the Internal Revenue Service,  
7                   if the taxpayer filed as a member of a consolidated tax return  
8                   filed under IC 6-3-4-14, a combined return filed under  
9                   IC 6-3-2-2 or IC 6-5.5-5-1, or a return combined by the  
10                  department under IC 6-3-2-2(p), the final determination date  
11                  means the first date on which no related federal adjustments  
12                  arising from that audit remain to be finally determined, as  
13                  described in clause (A), for the entire group.

14                  (C) If the federal adjustment results from filing an amended  
15                  federal return, a federal refund claim, or an administrative  
16                  adjustment request, the final determination date means the day  
17                  on which the amended return, refund claim, administrative  
18                  adjustment request, or other similar report was filed.

19                  (12) "Final federal adjustment" means a federal adjustment after  
20                  the final determination date for that federal adjustment has  
21                  passed.

22                  (13) "Indirect partner" means a partner in a partnership or pass  
23                  through entity that itself holds an interest directly, or through  
24                  another indirect partner, in a partnership or pass through entity.

25                  (14) "Internal Revenue Code" has the meaning set forth in  
26                  IC 6-3-1-11.

27                  (15) "Nonresident partner" has the meaning provided in  
28                  IC 6-3-4-12(n). **IC 6-3-4-12(m).**

29                  (16) "Partner" means a person or entity that holds an interest  
30                  directly or indirectly in a partnership or other pass through entity.

31                  (17) "Partner level adjustments report" means a report provided  
32                  by a partnership to its partners as a result of a department action  
33                  with regard to the partnership. A partner level adjustments report  
34                  does not include an amended statement provided by a partnership  
35                  or other entity as a result of an adjustment reported by the  
36                  partnership.

37                  (18) "Partnership" has the meaning set forth in IC 6-3-1-19.

38                  (19) "Partnership level audit" means an examination by the  
39                  Internal Revenue Service at the partnership level under Sections  
40                  6221 through 6241 of the Internal Revenue Code, as enacted by  
41                  the Bipartisan Budget Act of 2015, Public Law 114-74, which  
42                  results in federal adjustments.



1 (20) "Partnership return" means a return required to be filed by a  
2 partnership pursuant to IC 6-3-4-10. In the case of a partnership  
3 that is required to withhold tax or file a composite return pursuant  
4 to IC 6-3-4-12 or IC 6-5.5-2-8, the term also includes the returns  
5 or schedules required for tax withholding or composite filing. In  
6 the case of a partnership that is an electing entity under  
7 IC 6-3-2.1, the term also includes the returns or schedules  
8 required for the pass through entity tax under IC 6-3-2.1.

9 (21) "Pass through entity" means an entity defined in IC 6-3-1-35,  
10 other than a partnership, that:

11 (A) is not subject to tax except as provided in IC 6-3-2-2.8(2),  
12 in the case of a corporation described in IC 6-3-2-2.8(2); or  
13 (B) is not subject to tax except on its undistributed taxable  
14 income, in the case of an estate or a trust.

15 (22) "Reallocation adjustment" means a federal adjustment  
16 resulting from a partnership level audit or an administrative  
17 adjustment request that changes the shares of one (1) or more  
18 items of partnership income, gain, loss, expense, or credit  
19 allocated to direct partners. A positive reallocation adjustment  
20 means the portion of a reallocation adjustment that would  
21 increase federal adjusted gross income or federal taxable income  
22 for one (1) or more direct partners, and a negative reallocation  
23 adjustment means the portion of a reallocation adjustment that  
24 would decrease federal adjusted gross income or federal taxable  
25 income for one (1) or more direct partners, according to Section  
26 6225 of the Internal Revenue Code and the regulations under that  
27 section.

28 (23) "Resident partner" means a partner that is not a nonresident  
29 partner.

30 (24) "Review year" means the taxable year of a partnership that  
31 is subject to a partnership level audit, an administrative  
32 adjustment request, or an amended federal return that results in  
33 federal adjustments, regardless of whether any federal tax  
34 determined to be due is the responsibility of the partnership or  
35 partners.

(25) "Statement" means a form or schedule prescribed by the department through which a partnership or pass through entity reports tax attributes to its owners or beneficiaries.

(26) "Tax attribute" means any item of income, deduction, credit, receipts for apportionment, or other amount or status that determines a partner's liability under IC 6-3, IC 6-3.6, or IC 6-5.5.

42 (27) "Taxable year" means, in the case of a partnership, the year



1       or partial year for which a partnership files a return for state and  
 2       federal purposes and, in the case of a partner, the taxable year in  
 3       which the partner reports tax attributes from the partnership.

4       (28) "Taxpayer" has the meaning set forth in IC 6-3-1-15 (in the  
 5       case of the adjusted gross income tax) and IC 6-5.5-1-17 (in the  
 6       case of the financial institutions tax) and, unless the context  
 7       clearly indicates otherwise, includes a partnership subject to a  
 8       partnership level audit or a partnership that has made an  
 9       administrative adjustment request, as well as a tiered partner of  
 10      that partnership.

11      (29) "Tiered partner" means any partner that is a partnership or  
 12      pass through entity.

13      (30) "Unrelated business taxable income" has the meaning set  
 14      forth in Section 512 of the Internal Revenue Code.

15      SECTION 6. IC 6-8.1-6-1, AS AMENDED BY P.L.137-2022,  
 16      SECTION 85, IS AMENDED TO READ AS FOLLOWS [EFFECTIVE  
 17      UPON PASSAGE]: Sec. 1. (a) This subsection does not apply to a  
 18      person's Indiana adjusted gross income tax return or a person's financial  
 19      institutions tax return. If a person responsible for filing a tax return is  
 20      unable to file the return by the appropriate due date, the person may  
 21      petition the department, before that due date, for a filing extension.  
 22      When the department receives the petition, the department shall grant  
 23      the person a sixty (60) day extension.

24      (b) If a person responsible for filing a tax return has received an  
 25      extension of the due date and is still unable to file the return by the  
 26      extended due date, the person may petition the department for another  
 27      extension. The person must include in the petition a statement of the  
 28      reasons for the person's inability to file the return by the due date. If the  
 29      department finds that the person's petition is proper and that the person  
 30      has good cause for requesting the extension, the department may  
 31      extend the person's due date for any period that the department deems  
 32      reasonable under the circumstances. The department may allow  
 33      additional, successive extensions if the person properly petitions for the  
 34      extension before the end of the person's current extension period.

35      (c) The following apply only to a person's Indiana adjusted gross  
 36      income tax return or a person's financial institutions tax return:

37       (1) If the Internal Revenue Service allows a person an extension  
 38       on the person's federal income tax return, the corresponding due  
 39       dates for the person's Indiana income tax returns are automatically  
 40       extended to the last day as the federal extension, plus one (1)  
 41       month. For purposes of this subdivision, if the last day of the  
 42       federal extension is a Saturday, Sunday, a national legal holiday



1       recognized by the federal government, or a statewide holiday, the  
2       last day of the federal extension shall be determined without  
3       regard to Saturdays, Sundays, or holidays.

4 (2) If a person petitions the department for a filing extension for  
5 the person's Indiana adjusted gross income tax return or financial  
6 institutions tax return without obtaining an extension for filing the  
7 person's federal income tax return, the department shall extend  
8 the person's due date for the person's Indiana adjusted gross  
9 income tax return or financial institutions tax return for the same  
10 period that the person would have been allowed under subdivision  
11 (1) if the person had been granted an extension by the Internal  
12 Revenue Service. For purposes of this subdivision, if a person  
13 files an extension request for the person's federal income tax  
14 return for a taxable year but the extension is denied by the  
15 Internal Revenue Service, the department shall consider the  
16 person to have filed an extension under this subsection for that  
17 taxable year, provided that the person did not have a previous  
18 extension request denied by the Internal Revenue Service for that  
19 taxable year.

(d) A person submitting a petition for an extension under this section is not required to include any payment of tax with the petition. However, a person obtaining an extension under this section must pay at least ninety percent (90%) of the tax that is reasonably expected to be due on the original due date by that due date, or the person may be subject to the penalties imposed for failure to pay the tax. This subsection does not apply to payments required under IC 6-3-4-12(k) **IC 6-3-4-12(j)** and **IC 6-3-4-13(l)**. **IC 6-3-4-13(k)**.

(e) Any tax that remains unpaid during an extension period accrues interest at a rate established under IC 6-8.1-10-1 from the original due date, but that tax will not accrue any late payment penalties until the extension period has ended. Any penalties must be determined based on the amount of tax not paid on or before the end of the extension period after application of payments provided under IC 6-8.1-8-1.5 and determined as of the deadline of the extension period.

35 SECTION 7. IC 6-8.1-10-1, AS AMENDED BY P.L.1-2025,  
36 SECTION 105, IS AMENDED TO READ AS FOLLOWS  
37 [EFFECTIVE UPON PASSAGE]: Sec. 1. (a) If a person fails to file a  
38 return for any of the listed taxes, fails to pay the full amount of tax  
39 shown on the person's return by the due date for the return or the  
40 payment, or incurs a deficiency upon a determination by the  
41 department, the person is subject to interest on the nonpayment.

42 (b) The interest for a failure described in subsection (a) is the



1       adjusted rate established by the commissioner under subsection (c),  
 2       from the due date for payment. The interest applies to:

- 3       (1) the full amount of the unpaid tax due if the person failed to  
 4       file the return;
- 5       (2) the amount of the tax that is not paid, if the person filed the  
 6       return but failed to pay the full amount of tax shown on the return;  
 7       or
- 8       (3) the amount of the deficiency.

9       (c) The commissioner shall establish an adjusted rate of interest for  
 10      a failure described in subsection (a) and for an excess tax payment on  
 11      or before November 1 of each year. For purposes of subsection (b), the  
 12      adjusted rate of interest shall be the percentage rounded to the nearest  
 13      whole number that equals two (2) percentage points above the average  
 14      investment yield on state general fund money for the state's previous  
 15      fiscal year, excluding pension fund investments, as determined by the  
 16      treasurer of state on or before October 1 of each year and reported to  
 17      the commissioner. For purposes of IC 6-8.1-9-2(c), the adjusted rate of  
 18      interest for an excess tax payment must be the same as the adjusted rate  
 19      of interest determined under this subsection for a failure described in  
 20      subsection (a). The adjusted rates of interest established under this  
 21      subsection shall take effect on January 1 of the immediately succeeding  
 22      year.

23       (d) For purposes of this section, the filing of a substantially blank or  
 24      unsigned return does not constitute a return.

25       (e) Except as provided by IC 6-8.1-3-17(d), IC 6-8.1-3-17(f),  
 26      IC 6-8.1-5-2, and section 2.1(k) 2.1(j) of this chapter, the department  
 27      may not waive the interest imposed under this section.

28       (f) Subsections (a) through (c) do not apply to a motor carrier fuel  
 29      tax return.

30       SECTION 8. IC 6-8.1-10-2.1, AS AMENDED BY P.L.230-2025,  
 31      SECTION 91, IS AMENDED TO READ AS FOLLOWS [EFFECTIVE  
 32      UPON PASSAGE]: Sec. 2.1. (a) Except as provided in ~~IC 6-3-4-12(k)~~  
 33      **IC 6-3-4-12(j)** and ~~IC 6-3-4-13(f)~~, **IC 6-3-4-13(k)**, a person that:

- 34       (1) fails to file a return for any of the listed taxes;
- 35       (2) fails to pay the full amount of tax shown on the person's return  
 36       on or before the due date for the return or payment;
- 37       (3) incurs, upon examination by the department, a deficiency that  
 38       is due to negligence;
- 39       (4) fails to timely remit any tax held in trust for the state;
- 40       (5) fails to file a return in the electronic manner required by the  
 41       department if such return is required to be filed electronically; or
- 42       (6) is required to make a payment by electronic funds transfer (as



1 defined in IC 4-8.1-2-7), overnight courier, personal delivery, or  
2 any other electronic means and the payment is not received by the  
3 department by the due date in such manner and in funds  
4 acceptable to the department;  
5 is subject to a penalty.

6 (b) Except as provi

(b) Except as provided in subsection (g), the penalty described in subsection (a) is ten percent (10%) of:

8 (1) the full amount of the tax due if the person failed to file the  
9 return or, in the case of a return required to be filed electronically,  
10 the return is not filed in the electronic manner required by the  
11 department;

12 (2) the amount of the tax not paid, if the person filed the return  
13 but failed to pay the full amount of the tax shown on the return;  
14 (3) the amount of the tax held in trust that is not timely remitted;  
15 (4) the amount of deficiency as finally determined by the  
16 department; or

17 (5) the amount of tax due if a person failed to make payment  
18 required to be made by electronic funds transfer, overnight  
19 courier, personal delivery, or any other electronic means by the  
20 due date in such manner.

21 (c) For purposes of this section, the filing of a substantially blank or  
22 unsigned return does not constitute a return.

23 (d) If a person subject to the penalty imposed under this section can  
24 show that the failure to file a return, pay the full amount of tax shown  
25 on the person's return, timely remit tax held in trust, or pay the  
26 deficiency determined by the department was due to reasonable cause  
27 and not due to willful neglect, the department shall waive the penalty.

39 (f) The department shall adopt rules under IC 4-22-2 to prescribe the  
40 circumstances that constitute reasonable cause and negligence for  
41 purposes of this section.

42 (g) A person who fails to file a return for a listed tax that shows no



1 tax liability for a taxable year, other than an information return (as  
 2 defined in section 6 of this chapter), on or before the due date of the  
 3 return shall pay a penalty of ten dollars (\$10) for each day that the  
 4 return is past due, up to a maximum of two hundred fifty dollars  
 5 (\$250).

6 (h) A:

7       (1) corporation which otherwise qualifies under IC 6-3-2-2.8(2);  
 8       (2) partnership; or  
 9       (3) trust;

10 that fails to withhold and pay any amount of tax required to be withheld  
 11 under IC 6-3-4-12, IC 6-3-4-13, or IC 6-3-4-15 shall pay a penalty  
 12 equal to twenty percent (20%) of the amount of tax required to be  
 13 withheld under IC 6-3-4-12, IC 6-3-4-13, or IC 6-3-4-15. This penalty  
 14 shall be in addition to any penalty imposed by section 6 of this chapter.

15       (i) Subsections (a) through (c) do not apply to a motor carrier fuel  
 16 tax return.

17       (f) If a pass through entity (as defined in IC 6-3-1-35) fails to  
 18 include all nonresident partners, nonresident shareholders, or  
 19 nonresident beneficiaries in a composite return as required by  
 20 IC 6-3-4-12(i); IC 6-3-4-13(j); or IC 6-3-4-15(h); a penalty of five  
 21 hundred dollars (\$500) per pass through entity is imposed on the pass  
 22 through entity.

23       (k) (j) If a person subject to the penalty imposed under this section  
 24 provides the department with documentation showing that the person  
 25 is or has been subject to incarceration for a period of at least one  
 26 hundred eighty (180) days, the department shall waive any penalty  
 27 under this section and interest that accrues during the time the person  
 28 was incarcerated, but not to an extent greater than the penalty or  
 29 interest relief to which a person would otherwise have been entitled  
 30 under the federal Servicemembers Civil Relief Act (50 U.S.C.  
 31 3901-4043), if the person was in military service. Nothing in this  
 32 subsection shall preclude the department from issuing a proposed  
 33 assessment, demand notice, jeopardy proposed assessment, jeopardy  
 34 demand notice, or warrant otherwise permitted by law.

35       (f) (k) Beginning after December 31, 2024, reasonable cause under  
 36 this section for failure to file a timely and complete form IT-65  
 37 partnership return will be presumed if the partnership (or any of its  
 38 partners) is able to show that all of the following conditions have been  
 39 met:

40       (1) The partnership had no more than ten (10) partners for the  
 41 taxable year. (A husband and wife filing a joint return count as  
 42 one (1) partner.)



(2) Each partner during the tax year was a natural person (other than a nonresident alien), or the estate of a natural person.

(3) Each partner's proportionate share of any partnership item is the same as the partner's proportionate share of any other partnership item.

(4) The partnership did not elect to be subject to the rules for federal consolidated audit proceedings under Sections 6221 through 6234 of the Internal Revenue Code.

(5) All partners reported their distributive share of partnership items on their timely filed income tax returns.

SECTION 9. IC 6-8.1-10-6, AS AMENDED BY P.L.230-2025, SECTION 92, IS AMENDED TO READ AS FOLLOWS [EFFECTIVE UPON PASSAGE]: Sec. 6. (a) As used in this section, "information return" means the following when a statute or rule requires the following to be filed with the department:

(1) Schedule K-1 of form IT-20S, IT-41, or IT-65.

(2) Any form, statement, or schedule required to be filed with the department with respect to an amount from which tax is required to be deducted and withheld under IC 6 or from which tax would be required to be deducted and withheld but for an exemption under IC 6.

(3) Any form, statement, or schedule required to be filed with the Internal Revenue Service under 26 C.F.R. 301.6721-1(g) (1993). The term does not include form IT-20FIT, IT-20S, IT-20SC, IT-41, or IT-65.

(b) If a person fails to file an information return required by the department, or fails to electronically file an information return that is required by the department to be filed in an electronic format, a penalty of ten dollars (\$10) for:

(1) each failure to file a timely return; or

(2) each failure to electronically file a timely return required by the department to be in an electronic format; not to exceed twenty-five thousand dollars (\$25,000) in any one (1) calendar year, is imposed.

(c) For purposes of this section, the filing of a substantially blank or unsigned return does not constitute a return.

(d) Beginning after December 31, 2024, a person that has been granted penalty relief under section 2.1(f) 2.1(k) of this chapter for failure to file a timely and complete form IT-65 partnership return shall not be subject to a penalty under this section for failure to file the information return Schedule K-1 of form IT-65 for which penalty relief was granted.



1 SECTION 10. **An emergency is declared for this act.**

