

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

**LS 7048**  
**BILL NUMBER: SB 259**

**NOTE PREPARED:** Jan 6, 2026  
**BILL AMENDED:**

**SUBJECT:** Partnership Composite Returns.

**FIRST AUTHOR:** Sen. Baldwin  
**FIRST SPONSOR:**

**BILL STATUS:** As Introduced

**FUNDS AFFECTED:** X **GENERAL**  
**DEDICATED**  
**FEDERAL**

**IMPACT:** State

**Summary of Legislation:** The bill removes a penalty provision that applies if a pass through entity fails to include all nonresident partners, shareholders, or beneficiaries in a composite return. It makes conforming changes.

**Effective Date:** Upon passage.

**Explanation of State Expenditures:** *Department of State Revenue (DOR):* The DOR should be able to make these changes within current resource levels.

**Explanation of State Revenues:** *Penalty Provision:* Removing penalties for a pass through entity that does not list all partners and shareholders on a composite return will result in loss of revenues for the state General Fund. According to the DOR, in tax year 2024, the DOR imposed about \$9.5 M in penalties under this provision. The penalty also increases compliance in timely payments of taxes owed by nonresident taxpayers. The fiscal impact from removing the penalty will be significant but indeterminable. The impact could begin in FY 2026, but the full year impact will occur in FY 2027.

**Additional Information** - Under current law, if a pass through entity fails to include all nonresident partners, nonresident shareholders, or nonresident beneficiaries in a composite return, a penalty of \$500 per pass through entity is imposed. A "pass through entity" is defined as:

- (1) a corporation that is exempt from the adjusted gross income tax;
- (2) a partnership;
- (3) a trust;
- (4) an estate;
- (5) a limited liability company; or
- (6) a limited liability partnership.

Until tax year 2023, the DOR relied on self reporting with limited imposition of penalty primarily assessed for failure to include nonresident owners with positive income. However starting tax year 2024, the DOR also started fully enforcing the penalty on composite returns that failed to include nonresident owners with

zero or negative income. In tax year 2024, the total penalty imposed under this statute was about \$9.5 M. This was significantly above average of about \$200,000 annually imposed prior to tax year 2024.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:**

**State Agencies Affected:** Department of State Revenue.

**Local Agencies Affected:**

**Information Sources:** DOR Income Tax Information Bulletin #72,  
<https://www.in.gov/dor/files/reference/ib72.pdf>

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