

# INDIANA

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**IT-65**  
Partnership Return Booklet  
[www.intax.in.gov](http://www.intax.in.gov)

## Indiana businesses must report and pay sales and withholding taxes electronically

ALL businesses in Indiana must file and pay their sales and withholding taxes electronically. Businesses currently filing paper coupons will need to transition to filing via the state's INtax program or use a third-party vendor to electronically transmit forms ST-103 and WH-1. This is required by Indiana law.

Did you know?

- Service providers can also use INtax.
- We offer a range of sophisticated tutorials to help you learn how to use INtax.
- We have a special hotline for questions specifically related to INtax. Call (317) 232-2337.

To learn more and get started, visit [www.intax.in.gov](http://www.intax.in.gov).



## INBiz: Your One-Stop Source for your Business

INBiz is the state of Indiana's one-stop resource for registering and managing your business and ensuring it complies with state laws and regulations.

Visit this best-in-class portal at [www.inbiz.in.gov](http://www.inbiz.in.gov)



Indiana Department of Revenue  
**2019 IT-65 Indiana Partnership Return Booklet**

## What's New for 2019

### Online File and Pay Available through INTIME

INTIME, Indiana's new online tax portal was available for Corporate Customers as of September 3, 2019. INTIME provides the following functionality to customers:

- Make payments using a bank account or credit card
- View and respond to correspondence from DOR
- Request and print return transcripts on-demand
- Electronic delivery of correspondence
- Online customer service support through secure messaging

### Increased Online Support for Tax Preparers

In addition to the functionality listed above, INTIME provides increased access and functionality for tax preparers. INTIME provides the following functionality for tax preparers:

- Gain access to view and manage multiple customers under one login
- Ability to file returns, make payments, and view file and pay history for clients
- Request electronic power of attorney (ePOA) authorization to view customer accounts
- View and respond to correspondence for clients
- Secured messaging

### References to the Internal Revenue Code

Public Law (PL) 234-2019, Sec. 8, amended Indiana Code (IC) 6-3-1-11. The definition of adjusted gross income (AGI) is updated to correspond to the federal definition of adjusted gross income contained in the Internal Revenue Code (IRC). Any reference to the IRC and subsequent regulations means the Internal Revenue Code of 1986, as amended and in effect on January 1, 2019. For a complete summary of new legislation regarding taxation, please see the *Synopsis of 2019 Legislation Affecting the Indiana Department of Revenue* at [www.in.gov/dor/3656.htm](http://www.in.gov/dor/3656.htm).

### Schedule IN K-1 Electronic Filing Requirement

Beginning with tax years ending after Dec. 31, 2019 (tax year 2019 fiscal year filers), a taxpayer that is required to file twenty-five or more Schedule IN K-1's must file them in an electronic format. For taxpayers filing on a calendar year basis, this electronic filing requirement begins with tax year 2020.

### Schedule E Update

Treatment of certain receipts, including those includable under IRC 965/951A that are treated as a foreign source dividend, are treated differently. See page 14 for information about this and additional updates.

### Schedule Composite Update

Nonresident partners will need to file Form IT-40PNR if county tax is withheld for them on Schedule Composite. See page 16 for more information.

### Add-backs

- Updates have been made to the **Bonus Depreciation and Section 179 Expense** add-back instructions. See page 8 for more information.
- The **wagering taxes** required to be added back as a tax based on or measured by income is being phased out. See page 8 for more information.

### Credits

- **Alternative Fuel Vehicle Manufacturer Tax Credit.** This credit has been repealed. Any previously approved yet unused credit is available to be claimed.
- **Headquarters Relocation Credit.** Some or all of this credit may be refundable to the owners. See instructions on page 18 for more information.
- **Industrial Recovery Credit.** The timeline for claiming this credit has changed. See page 19 for more information.
- **School Scholarship Tax Credit Contribution Ceiling Increased.** The total of allowable net contributions to the program has increased to \$15 million for the program's fiscal year of July 1, 2019 through June 30, 2020.

### School Scholarship Tax Credit Contribution Ceiling Increased

The total of allowable net contributions to the program has increased. See page 19 for more information.

### Industrial Recovery Credit Update

The eligibility process for claiming the credit has been modified. See instructions on page 20 for more information.

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### Annual Public Hearing

In accordance with the Indiana Taxpayer Bill of Rights, the department will conduct an annual public hearing in Indianapolis in June of 2020. Event details will be listed at [www.in.gov/dor/4877.htm](http://www.in.gov/dor/4877.htm). Please come and share feedback or comments about how the department can better administer Indiana tax laws. If not able to attend, please submit feedback or comments in writing to: Indiana Department of Revenue, Commissioner's Office, MS# 101, 100 N. Senate Avenue, Indianapolis, IN 46204.

Our homepage provides access to forms, information bulletins and directives, tax publications, email, and various filing options. Visit [www.in.gov/dor](http://www.in.gov/dor).

### Who Must File and When

Partnerships conducting business within Indiana must file an annual return (Form IT-65) and information returns (Schedule IN K-1) with the Department of Revenue. These forms must disclose each partner's distributive share of the partnership income distributed or undistributed. These forms are due on or before the 15th day of the 4th month following the close of the partnership's tax year.

Enclose with Form IT-65 the first five pages of the U.S. Partnership Return of Income, Form 1065 or 1065B. Also enclose Schedule M-3. Federal Schedules K-1s should not be enclosed but must be made available for inspection upon request by the department.

Any partnership doing business in Indiana or deriving gross income from sources within Indiana is required to file a return. In addition, any partnership that has partners residing in Indiana is required to file a return, even if the partnership is not doing business in Indiana. For Indiana adjusted gross income (AGI) tax purposes, the term *doing business* generally means the operation of any business enterprise or activity in Indiana, including but not limited to the following:

- The maintenance of an office, a warehouse, a construction site, or another place of business in Indiana;
- The maintenance of an inventory of merchandise or material for sale, distribution, or manufacture, or consigned goods;
- The sale or distribution of merchandise to customers directly from company-owned or -operated vehicles when the title of merchandise is transferred from the seller or distributor to the customer at the time of sale or distribution;
- The rendering of a service to customers in Indiana;
- The ownership, rental, or operation of a business or property (real or personal) in Indiana;
- The acceptance of orders in Indiana with no right of approval or rejection in another state;
- Interstate transportation; or
- The maintenance of a public utility.

The term “partnership” includes a syndicate, group, pool, joint venture, limited liability company, limited liability partnership, or other unincorporated organization that is not, within the meaning of Indiana Code (IC) 6-3-1, a corporation, a trust, or an estate. Banks with common trust funds filing U.S. Form 1065 must file partnership Form IT-65 and comply with the provisions of Treas. Reg. 1.6032-1 when reporting for Indiana purposes.

### Calculating Corporate Income Tax Rate

The corporate AGI tax rate is as follows:

After June 30, 2018, and before July 1, 2019 .....	5.75%
After June 30, 2019, and before July 1, 2020 .....	5.5%
After June 30, 2020, and before July 1, 2021 .....	5.25%
After June 30, 2021 .....	4.9%

### How to Determine the Tax Rate

For taxpayers whose taxable year begins when one rate is in effect and the taxable year ends when a different rate is in effect, compute the tax as provided below. This includes calendar-year taxpayers, fiscal-year taxpayers, short-period taxpayers, and 52-53 week tax year taxpayers. However, if your taxable year begins and ends during a period when the same rate is in effect (for instance, a fiscal year from July 1, 2018 to June 30, 2019), no proration is necessary.

### How to Determine the Tax Rate for Calendar-Year, Fiscal-Year, Short-period, and 52-53 Week tax year Taxpayers

Pursuant to IC 6-3-2-1(c), the following steps must be used to determine the tax rate if a taxpayer is subject to different tax rates for a taxable period:

- Multiply the tax rate in effect on June 30 of the taxable period by the number of days in the taxpayer’s taxable period that occurred before July 1 of the taxable year.
- Multiply the tax rate in effect on July 1 of the taxable period by the number of days in the taxpayer’s taxable period that occurred after June 30 of the taxable year.
- Add the amounts in Step 1 and Step 2, and then divide the sum by the total number of days in the taxpayer’s taxable year.
- Round the rate determined in Step 3 to the nearest 0.01%.

## General Filing Instructions

### Liability of the Partnership

Partnerships as entities are not subject to income taxes. However, publicly traded partnerships treated as corporations pursuant to IRC Section 7704 are classified for Indiana tax purposes in the same manner as they are classified for federal tax purposes. A limited liability company classified as a corporation for federal tax purposes should file Form IT-20.

Partnerships are considered to be the taxpayer with respect to the payment of amounts required to be withheld at source. See the section titled “Withholding Tax Liabilities of Partnerships.”

Partnerships are subject to use tax. Use tax is due on the storage, use, or consumption of tangible personal property purchased in a transaction in Indiana or elsewhere. This does not apply if the transaction is exempt from the sales and use tax by law **or** the sales tax due and paid on the transaction equals the use tax due.

See the instructions for the Sales/Use Tax Worksheet on page 9.

An apportionment schedule must be enclosed with the return if the partnership is doing business both within and outside Indiana and has any partners not domiciled in Indiana. See the instructions for Schedule E Apportionment of Income for Indiana on page 14. Any partnership that has nonresident partners must also file a composite return for all its nonresidents. Any partnership that fails to file a composite return that includes all its nonresident partners will be assessed a penalty of \$500.

To avoid penalty and interest charges for delinquent filing of returns, a partnership should verify its tax status and withholding responsibilities before commencing business in Indiana.

### Withholding Tax Liabilities of Partnerships

The following instances obligate the partnership to register with the department and become an Indiana withholding agent on behalf of each of the following.

## Withholding on Employees

Partnerships making payments of salaries, wages, tips, fees, bonuses, and commissions that are subject to Indiana state and/or county income taxes and are required by the IRC to withhold federal taxes on those types of payments are also required to withhold for Indiana tax purposes.

Withholding on the compensation of nonresident team members of certain professional sports organizations is based on duty days performed in Indiana. Refer to Income Tax Information Bulletin #88 ([www.in.gov/dor/3650.htm](http://www.in.gov/dor/3650.htm)). If an employee resides in a state that has a reciprocal agreement with Indiana, the employee is exempt from Indiana state income tax but is subject to the relevant county tax. A partnership with an employee withholding liability must register as an Indiana withholding agent. The department assigns an Indiana Taxpayer Identification Number (TID).

The partnership has two options in registering as a withholding agent:

- Register with the department online using INBiz ([www.inbiz.in.gov](http://www.inbiz.in.gov)); or
- Visit either the department's downtown Indianapolis office or one of the district offices located throughout the state to use the department's kiosks to register online.

Payments of amounts withheld must be remitted to the department via electronic method by the due date. If a filing and/or payment of the proper amount of tax withheld is not made by the due date, penalty and interest will be added. A person responsible for remitting payments may be personally subject to criminal prosecution if the failure to pay and/or file a withholding return is due to fraud or tax evasion. Effective Jan. 1, 2013, all entities are required to remit withholding statements electronically by using either a third-party vendor or INtax. The INtax application is Indiana's free online tool for managing business tax obligations.

## Withholding on Partners

A partnership must withhold state income tax at the appropriate income tax rate on the amount it pays or credits to any of its nonresident partners on the partner's distributive share of the partnership's income derived from Indiana sources regardless of whether distributions of property are made to partner and regardless of what of activities the partners may have in Indiana. All withholding will be remitted by using Form IT-6WTH. If a partnership fails to withhold, it will be assessed a penalty. This penalty is 20% plus interest, in addition to the amount withheld or required to be withheld and paid to the department. If a distribution to nonresident partners is made with property other than money, or a gain is realized without the payment of money, the partnership may not release the property or credit the gain until it has funds sufficient to pay the withholding tax due.

IC 6-3-4-12 provides that all nonresident partners' distributive shares must be included in a composite return schedule, and the partnership must continue to withhold Indiana adjusted gross income tax for all nonresident partners. There is no provision for a partner to "opt out" of composite filing. Each nonresident partner's composite tax is calculated at the relevant tax rate. The department has streamlined the procedure for making withholding payments for nonresidents.

All withholding monies will be remitted with Form IT-6WTH, and credit for the withholding/composite tax will be reflected on Schedule IN K-1 for each partner. Form IT-6WTH is available by calling the Corporate Tax section at (317) 232-0129. Payments for Form IT-6WTH also may be made electronically. For further information, consult Income Tax Information Bulletin #72, which is available at [www.in.gov/dor/3618.htm](http://www.in.gov/dor/3618.htm).

**Individual Partners** – A partnership must withhold state adjusted gross income (AGI) tax at the individual income tax rate on the apportioned distributive shares of partnership income (on current-year earnings derived from Indiana sources) and any other guaranteed payments attributable to Indiana. It must do this each time it pays or credits any of its nonresident partners and part-year resident individual partners. The withholding rate for individuals is 3.23% (.0323).

The withholding requirement does not apply to individual partners who are residents of reverse credit states **and** who are subject to and pay income taxes at rates equal to or greater than Indiana's individual income tax rate to the resident states. The relevant reverse credit states are:

- Arizona;
- Oregon; and
- Washington, D.C.

A partnership must withhold county income tax at the county's relevant tax rate on each Indiana nonresident partner whose principal place of business or employment on January 1 is located in an Indiana county. See Schedule CT-40, page 2, at [www.in.gov/dor/6281.htm](http://www.in.gov/dor/6281.htm) to get the county's tax rate.

**Trusts and Estates** – A partnership must withhold on the amount it pays or credits for the partner's distributive share derived from Indiana sources for partners that are trusts and estates not domiciled in Indiana. This amount must reflect the ultimate tax liability due Indiana by the respective member or beneficiary because of the partnership's activities.

**Note:** The withholding provisions do not apply to nonresident partners who are nontaxable trust or estate entities.

A partnership must withhold tax on the amount it pays or credits for the partner's distributive share derived from Indiana sources to a fiduciary. Then the trust or estate must also withhold state income taxes for all its nonresident beneficiaries.

**Corporate Partners** – Partnerships must withhold AGI tax at the corporate tax rate on the amount it pays or credits for the partner's distributive share derived from Indiana sources to all nonresident corporate partners. This withholding must be an amount reflecting the ultimate Indiana tax liability due by respective partners because of the partnership's activities.

A corporation is subject to AGI tax at the current rate. See page 3 for the current tax rate and instructions on how to compute the rate.

A partnership must withhold and remit the Indiana Financial Institution Tax (FIT) if:

- The partnership conducts the business of a financial institution;
- The partnership has nonresident corporate partners; and
- The partners conduct the business of a financial institution.

FIT must be withheld on the respective nonresident corporate partner's share of partnership income as computed under IC 6-5.5-4. However, if a written declaration that the partner is not subject to the FIT exists, the FIT withholding is not required. Instead, corporate AGI tax must be withheld from the nonresident corporate partner's distributive share of income apportioned to Indiana.

#### **Withholding Amounts on Tiered Partnerships/S Corporations**

A partnership must withhold state income tax at the individual income tax rate on the apportioned distributive shares of partnership income (on current-year earnings derived from Indiana sources) paid or credited to another nonresident partnership or nonresident S corporation. It must do this each time it pays or credits any of its nonresident partners or nonresident S corporations.

**Note:** Partners not domiciled in Indiana must meet annual filing requirements and remit all unpaid tax, penalties, and interest.

#### **Accounting Periods and Methods**

The accounting periods for Form IT-65 and the method of accounting adopted must be the same as used for federal income tax purposes.

#### **Composite Withholding Payments (Form IT-6WTH)**

A partnership that files a composite return must withhold Indiana state and/or county income taxes from all nonresident partners into the corporate account using Form IT-6WTH. Payment is due the 15th day of the 4th month following the close of the partnership's tax period. To make additional payments, please contact the Corporate Tax Section at (317) 232-0129 for an additional Form IT-6WTH. Payments for form IT-6WTH also may be made electronically. Check our website for updates. For further information, consult Income Tax Information Bulletin #72 available at [www.in.gov/dor/3650.htm](http://www.in.gov/dor/3650.htm) and [www.in.gov/dor](http://www.in.gov/dor). The total payments are claimed as a credit on line 9 of Form IT-65.

#### **Extended Filing Due Date**

The initial due date for filing is the 15th day of the 4th month following the close of the partnership's tax year. The department accepts the federal extension of time application (Form 7004) or the federal electronic extension. If a taxpayer has an extension, there is no need to contact the department prior to filing the annual return. Returns postmarked within 30 days after the last date indicated on the federal extension form are considered timely filed.

Do not file a separate copy of the federal extension form with the department to request an Indiana extension at the time of requesting the extension. Instead, enclose a copy of the federal extension of time with the state return filing and check the box to question Q on the front of Form IT-65.

If a federal extension is not needed, a partnership can request a separate Indiana extension of time to file by writing to Indiana Department of Revenue, Corporate Income Tax, Tax Administration, P.O. Box 7206, Indianapolis, IN 46207-7206.

Extensions are applicable to the time for filing the return only and not to any tax liability due. Any payments made after the original due date must include penalty and interest.

#### **Amended Returns**

Both the partnership and the partners must file amended Indiana returns within 180 days after the filing of the amended federal return if:

- The partnership files an amended federal return; and
- The change(s) affects the Indiana income or the taxable income reportable by the partners.

An adjustment made by the Internal Revenue Service affecting the reportable Indiana income must be reported to Indiana with an amended partnership return. This must be done within 180 days after the adjustment becomes final.

**Check the box at the top of Form IT-65 if filing an amended return.**

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## **Instructions for Completing Form IT-65**

### **Filing Period and Identification**

Use Form IT-65 to file:

- A 2019 partnership return for a tax year ending on Dec. 31, 2019;
- A short tax year beginning and ending in 2019; or
- A fiscal year beginning in 2019 and ending in 2020.

For a fiscal or short tax year, fill in both the beginning month, day, and year and the ending month, day, and year at the top of the form.

### **Identification Section**

Check the box at the top of the form if filing an amended return. For a name change, check the box at the top of the return. The copies of amended articles filed with the Indiana Secretary of State must be enclosed.

The federal identification number (FID) shown in the box at the upper-right corner of the return must be the same as the number used on the U.S. Return of Partnership Income. Please use the correct legal name of the partnership and its current mailing address.

**County Code Number.** List the two-digit county code number of the county in Indiana where the partnership has a primary business location. See Departmental Notice #1 located at [www.in.gov/dor/reference/files/dn01.pdf](http://www.in.gov/dor/reference/files/dn01.pdf) for a list of the county code numbers. Enter "00" (two zeroes) in the county box located to the immediate right of the number and street if the partnership address lies outside of Indiana.

For foreign addresses, please note the following:

- The name of the city, town, or village in the box labeled City;
- The name of the state or province in the box labeled State; and
- The postal code and the 2-digit country code in the box labeled Zip Code.

Enter the principal business activity code, from the North American Industry Classification System (NAICS), in the designated block of the return. Use the six-digit activity code reported on the federal partnership income tax return.

### Questions K through U and Other Fill-in Lines

All partnerships filing an Indiana partnership income tax return must complete the top portion of the form. This includes questions K through U. Check or complete all the boxes that apply to the return:

- K. Indicate the date and place the partnership was organized.
- L. Indicate the partnership's state of commercial domicile.
- M. Indicate the year the initial Indiana return was filed.
- N. Indicate the accounting method used.
- O. Check the "final return" box only if the partnership is dissolved, liquidated, or has withdrawn from the state. **In the event of bankruptcy, Form BC-100 must be timely filed to close out any sales and withholding accounts.** Go to [www.in.gov/dor/3731.htm](http://www.in.gov/dor/3731.htm) to complete this form online.  
-Select the Composite Return box if filing a composite return for nonresident partners.  
-Submit a Schedule Composite for nonresident individual/non-corporate entities or a Schedule Composite-COR for corporate entities domiciled outside of Indiana.
- P. Enter the total number of partners in the partnership in field one of question P. Enter in the number of all partners who are nonresidents of Indiana in field two of question P.
- Q. Check the box if the partnership has a valid extension of time or an electronic federal extension of time to file the return. If applicable, enclose a copy of federal Form 7004 when filing the state return.
- R. Check the box if this is a limited liability company electing partnership treatment on the federal return.
- S. Check the box if this partnership is a member of any other partnership.
- T. Check this box if income is reported from disregarded entities. If this box is checked, please enclose a list of the disregarded entities with the return.
- U. Check this box if claiming a qualified research expense credit and attach the supporting schedule.

### Aggregate Partnership Distributive Share Income

**Note:** Round all entries to the nearest whole dollar amount and do not use a comma in dollar amounts of four digits or more. For example, instead of entering "3,455" enter "3455."

**Line 1.** Enter the amount from the U.S. partnership return Schedule K:

- Net ordinary business income;
- Net income from real estate activities from Form 8825;
- Other rental income activities;
- Portfolio income and deductions;
- Royalties;
- Capital gains and losses;
- Guaranteed payments; and
- Other income.

Total net income (loss) from Schedule K, line 1 through line 11 less line 12, and a portion of line 13 related to investment income (see instructions below).

The Section 179 deduction and that portion of investment expenses included in federal Schedule K, part of line 12, and line 17 relating to investment portfolio (royalty) income, flowing through to federal Schedule E, may be tentatively deducted. Do not deduct other expenses treated as federal itemized deductions.

**Use the Worksheet for Partnership Distributive Share Income, Deductions, and Credits** to help you calculate this figure. The income worksheet must be used if this partnership received any distributive income from one of the following:

- An owned partnership interest;
- An estate; or
- A trust.

See the worksheet and instructions on page 12.

If filing federal Form 1065B by an electing large partnership, use the amounts from line 1 through 8 of Schedule K. Convert distributive share of income items into a Form 1065 Schedule K format. Carry the figures to Form IT-65 and Schedule IN K-1.

### Required Indiana State Modifications - Lines 2a through 2d

**Lines 2a through 2c.** Enter any add-backs here. Enter the name of the add-back, its 3-digit code, and its amount. Use a negative sign for negative amounts (-). Attach additional sheets if necessary.

### Adding Back Depreciation Expenses

Several of the discontinued add-backs were created by timing differences between federal and Indiana allowable expenses. Following is an example of how to report a difference.

*Example.* ABC Company has qualified restaurant equipment. For federal tax purposes, they use the accelerated 15-year recovery period for an asset placed in service in 2009. Since 2009, ABC Company has been adding back the depreciation expense taken for federal purposes that exceeded the amount allowable for Indiana purposes. The accumulated depreciation on such an asset through 2012 is, therefore, different for federal and state purposes. This difference will remain until the asset is fully depreciated or until the time of its disposition.

So, in this example, the asset was acquired in January 2009 at a purchase price of \$120,000. This normally would have a 25-year recovery period, but IRC Sec. 168 allows for a 15-year recovery period. Tax year 2012 is the last year ABC Company will have reported a qualified restaurant equipment add-back until the end of the 15-year recovery period.

If this asset was sold before being fully depreciated, the catch-up modification would be reflected in the year of the sale. However, if this property is held through 2023 (the 15th year of depreciation), ABC Company will report a negative \$9,600 catch-up add-back on the 2023 state tax return.

The following add-backs and deductions should be entered on lines 2a through 2d.

**Add-back for Certain Taxes Deducted from Federal AGI (3-digit code: 100)** – The add-back of all state taxes based on or measured by income, levied by any state, deducted on the federal return.

**Wagering taxes.** The portion of wagering taxes required to be added back as a tax based on or measured by income is being reduced (phased out) each year for eight years. The percentage of taxes required to be added back is determined by the first date of the taxpayer's taxable year, and is determined as follows: 2019 – 87.5% ; 2020 – 75%; 2021 – 62.5%; 2022 – 50%; 2023 – 37.5% 2024 – 25.0%; 2025 – 12.5%; 2026 and later – no add back required

For example, Casino X remits \$10,000,000 in riverboat wagering taxes in 2019. Individual owns 10% of Casino X. Individual's share of Casino X's income taxes is \$1,000,000. Instead of individual adding back the full \$1,000,000, Individual will add back \$875,000.

Note. Income, losses and/or expenses from other schedules and forms may flow through to federal Schedules C, E and F. For example, partnership income from federal Schedule K-1 (Form 1065) may be included on federal Schedule E, while expenses from federal Form 8829 may be included on federal Schedule C. Make sure to check these schedules and forms for any deduction that needs to be added back.

**Add-back for Bonus Depreciation (3-digit code: 104)** – An amount attributable to bonus depreciation in excess of any regular depreciation that would be allowed if an election under Internal Revenue Code (IRC) Section 168(k) had not been made as applied to property in the year that it was placed into service. Taxpayers that own property for which additional first-year special depreciation for qualified property was allowed in the current taxable year or in an earlier taxable year must add or subtract an amount necessary to make the AGI equal the amount computed without applying any bonus depreciation. The first-year special depreciation includes 100% bonus depreciation. The subsequent depreciation allowance must be calculated on the state's stepped-up basis until the property is disposed. Enclose a statement to explain the adjustment.

Information Bulletin #118 ([www.in.gov/dor/3650.htm](http://www.in.gov/dor/3650.htm)) explains the required modification on the allowance of depreciation for state tax purposes.

**New.** Special rules may apply if the bonus depreciation is taken against property acquired in a like-kind exchange. See Information Bulletin #118 at [www.in.gov/dor/3650.htm](http://www.in.gov/dor/3650.htm) for additional information.

**Add-back for Section 179 Expense Excess (3-digit code: 105)** – Add or subtract the amount necessary to make the adjusted gross income of the taxpayer that placed any IRC Section 179 property in service in the current taxable year or in an earlier taxable year equal to the amount of adjusted gross income that would have been computed as if the federal limit for expensing under IRC section 179 was \$25,000 as opposed to \$1,000,000.

Indiana has adopted an expensing cap of \$25,000. This modification affects the basis of the property if a higher Section 179 limit was applied. The federal increase to a \$1,000,000 deduction was not allowed for purposes of calculating Indiana adjusted gross income. However, the \$2,500,000 threshold for phase-out is allowed for purposes of calculating Indiana AGI. The depreciation allowances in the year of purchase and in later years must be adjusted to reflect the additional first-year depreciation deduction, including the special depreciation allowance for 100% bonus depreciation property, until the property is sold.

**Note.** The net amount determined for the net bonus depreciation or the IRC Section 179 add-back might be a negative figure (because of a higher depreciation basis in subsequent years). If it is, use a minus sign to denote that. (If the taxable income is a loss, this adjustment increases a loss when added back.) Enclose a statement to explain the adjustment.

**New.** Special rules may apply if the Section 179 expensing is taken against property acquired in a like-kind exchange. See Information Bulletin #118 at [www.in.gov/dor/3650.htm](http://www.in.gov/dor/3650.htm) for additional information.

**Deduction for Interest on U.S. Government Obligations (3-digit code: 610)** – Deduct interest income, less related expenses, from certain obligations of the U.S. government included as income on the federal return. See Income Tax Information Bulletin #19 available at [www.in.gov/dor/3650.htm](http://www.in.gov/dor/3650.htm) for a list of eligible items.

**Add-back for Deferral of Business Indebtedness Discharge and Reacquisition (3-digit code: 107)** – Add back the deduction for deferral of business indebtedness discharge and reacquisition. Enter an amount equal to the amount claimed as a deferral of income arising from business indebtedness discharged in connection with the reacquisition after Dec. 31, 2008, and before Jan. 1, 2011, of an applicable debt instrument (as provided in Section 108(i) of the IRC), for federal income tax purposes. If a deferred amount was added back previously, deduct the amount of deferred income recognized for federal purposes in the current period.



**Add-back of OOS Municipal Obligation Interest**

**(3-digit code: 137)** – Interest earned from a direct obligation of a state or political subdivision other than Indiana (out of state, or OOS) is taxable by Indiana if the obligation is acquired after Dec. 31, 2011. Interest earned from obligations held or acquired before Jan. 1, 2012, is not subject to Indiana income tax and should not be reported as an add-back.

**Note:** Interest earned from obligations of Puerto Rico, Guam, Virgin Islands, American Samoa, or Northern Mariana is not included in federal gross income and is exempt under federal law. There is no add-back for interest earned on these obligations. For more information, see Information Bulletin #19 available at [www.in.gov/dor/3650.htm](http://www.in.gov/dor/3650.htm).

**Federal Repatriated Dividend Deduction Add-Back**

**(3-digit code: 139)** - Add back the deduction taken on the IRC Transition Tax Statement, Line 3 using code 139. Report the addback to the beneficiaries using code 139 on Schedule IN K-1. For nonresident individuals, include only the apportioned amount of the addback.

**Excess Federal Interest Deduction Modification (3-digit code: 142)**

- IRC Section 163(j) limits the federal interest deduction for most business interest to 30% of adjusted taxable income plus business interest. However, Indiana decoupled from this provision. Subtract an amount equal to the amount disallowed as a federal deduction for excess business interest in the year in which the interest was first paid or accrued. Add back any amount of excess taxable income (as defined in IRC Section 163(j)(4)(C)) determined at the entity level.

**Indiana Lottery Winnings Annuity Deduction (3-digit code: 629)**

- If a taxpayer receives proceeds from a winning Hoosier Lottery ticket for a lottery held prior to July 1, 2002, those proceeds may be deducted from the taxpayer's Indiana adjusted gross income. This deduction applies only to prizes won from the Hoosier Lottery Commission; proceeds from other state lotteries or from other gambling sources, such as casinos, are not deductible. In addition, proceeds from winning Hoosier Lottery tickets for lotteries held after June 30, 2002, are not deductible.

**Note:** Individuals or entities that have purchased Hoosier Lottery prizes from a winning ticket holder for valuable consideration are not eligible for this deduction.

**Infrastructure Fund Gift Deduction (3-digit code: 631)**

- Shareholders or partners may be eligible to claim a deduction if a contribution has been made to a regional development infrastructure fund. Record the amount on lines 19 – 23 of the IN K-1.

Filers should keep detailed records of the contribution as the department can ask filers to provide this information at a later date.

**Line 2d.** Enter the total amount of add-backs and subtractions from any additional sheets. If more than five modifications are needed, attach additional sheets detailing them. Total the amounts from the additional sheets and enter the total here (use a negative sign to denote a negative amount).

**Line 3.** Add lines 1 through 2d.

**Apportionment of Income**

Partnerships deriving income from sources within and outside Indiana and having non-Indiana-domiciled partners or non-unitary corporate partners must complete line 4.

**Line 4.** Enter the Indiana apportionment percentage if the partnership has any multistate business activities. If apportioning income, enter the Indiana percentage (rounded to two decimal places) from line 9 of Schedule E, Apportionment of Income for Indiana. Do not enter 100%.

Before continuing to lines 5 through 16, complete Schedule IN K-1 for each partner.

<b>Sales/Use Tax Worksheet</b>		
List all purchases made during the tax year from out-of-state companies.		
<b>Column A</b> Description of personal property purchased from out-of-state retailer	<b>Column B</b> Date of Purchase(s)	<b>Column C</b> Purchase Price
Magazine subscriptions:		
Mail order purchases:		
Internet purchases:		
Other purchases:		
1. Total purchase price of property subject to the sales/use tax .....	1	
2. Sales/use tax: Multiply line 1 by .07 (7%) .....	2	
3. Sales tax previously paid on the above items (up to 7% per item) .....	3	
4. Total amount due: Subtract line 3 from line 2. Carry to Form IT-65, line 5. If the amount is negative, enter zero and put no entry on line 5 of Form IT-65 .....	4	

## Summary of Calculations for Form IT-65

**Sales/Use Tax Worksheet** - IC 6-2.5-3-2 imposes a use tax on the use, storage, or consumption of tangible personal property in Indiana that was purchased or rented in a retail transaction, wherever located, and sales tax was not paid. This rate is 7%. Examples of taxable items include:

- Magazine subscriptions;
- Office supplies;
- Electronic components; and
- Rental equipment.

Any property purchased free of tax by use of an exemption certificate may be subject to the use tax. In addition, any property purchased out of state or exempt from Indiana sales or use tax and converted to a nonexempt use by the business is subject to the use tax at the time of conversion. Complete the Sales/Use Tax Worksheet below to compute any sales/use tax liability. For more information about use tax see the department's website available at [www.in.gov/dor/](http://www.in.gov/dor/), or call (317) 232-0129.

**Note:** A registered retail sales merchant or out-of-state use tax agent for Indiana must report nonexempt purchases used in the Indiana business. This is reported on Form ST-103, Indiana Annual, or Monthly Sales and Use Tax Voucher. If use tax is not paid by the original due date of the return, interest will be added to the amount due. A 10% penalty or \$5, whichever is greater, is charged on each unpaid use tax liability.

**Caution:** Do not report totals from Form ST-103 on this worksheet or on Form IT-65.

**Line 5.** Enter the use tax due from the Sales/Use Tax worksheet located on page 9.

**Line 6a.** Enter the total tax liability of the nonresident members from line 15F of Schedule Composite (column D plus column E). Enclose Schedule Composite.

**Line 6b.** Enter the total tax liability of the nonresident corporate entity(ies) from line 29D of Schedule Composite-COR. Enclose Schedule Composite-COR.

**Line 8.** Enter the total amount of pass-through withholding. Enclose Schedule IN K-1 from the paying entity.

**Line 9.** Enter the total composite withholding payments from Form IT-6WTH. Amounts withheld from nonresident individual partners included in the composite return must be remitted using Form IT-6WTH.

**Note.** Do not claim withholding with Form IT-6WTH until you have remitted the withholding to DOR.

**Line 10.** Enter any other payments and credits belonging to the partnership. A detailed explanation must be enclosed for any credits claimed on this line.

**Line 11.** Enter the amount of Economic Development for a Growing Economy (EDGE) credit being claimed from line 19 of Schedule IN-EDGE if not passing through to partners on Schedule IN K-1. Complete Schedule IN-EDGE and enclose it with the return. Otherwise, this credit will be denied.

**Line 12.** Enter the amount of EDGE-R credit being claimed from line 19 of Schedule IN-EDGE-R if not passing through to partners on Schedule IN K-1. Complete Schedule IN-EDGE-R and enclose it with the return. Otherwise, this credit will be denied.

**Line 13.** Enter the total amount of credits claimed from Schedule IN-OCC, and enclose Schedule IN-OCC with the return. Otherwise, these credits will be denied. If filing this schedule with Form IT-65, only reflect the credit amounts from Schedule IN K-1s on behalf of the entity's partners who are included on the composite return. Do not include credits from the IN K-1s that belong to partners who are not included on the composite return. Enter the combined pro rata credits on one line of the IN-OCC; do not enter a line for each composite member. The total amount of credit for the members on the composite return cannot exceed the entity's total tax due. In addition, sales and use tax cannot be offset by these nonrefundable credits if included in the total tax due. If an individual income tax return is being filed for a nonresident member included on the Schedule Composite, the nonresident member should use the 4-digit code provided on Schedule IN K-1, not the 3 digit code utilized on the pass-through entity's income tax return.

**Line 14.** Subtract lines 8 through 13 from line 7. If a balance due remains, proceed to lines 15 through 17.

**Line 15.** Enter the total interest due.

**Caution:** Two separate calculations of interest and penalty might be required:

- Interest is computed on the net amount of the composite tax on line 14 paid after the 15th day of the 4th month following the end of the partnership's taxable year. Interest is calculated from the day following the due date for payment of the composite tax to the actual date the balance is paid with Form IT-65.
- Interest on use tax is calculated on the amount of use tax on line 14 that is paid after the original due date of Form IT-65 return.

See Departmental Notice #3 available at [www.in.gov/dor/3618.htm](http://www.in.gov/dor/3618.htm) for the current interest rate or contact the department by calling (317) 232-0129.

**Line 16.** Enter the total penalty due. The penalty for late payment is 10% of the amount (but not less than \$5) of any composite tax due on line 14 paid after the 15th day of the 4th month following the end of the partnership's taxable year. (See the caution note for line 15.) The penalty is still due on use tax paid after the original due date of the return.

If a return showing no liability on line 7 is filed late, the penalty for failure to file by the due date is \$10 per day the return is past due, up to a maximum of \$250. In addition, a separate \$10 penalty is assessed on each Schedule IN K-1 information return that is filed late.

**Note: No penalty is due on composite withholding tax if at least 80% of the withholding tax for the current year, or 100% of the prior year's withholding tax is remitted by the 15<sup>th</sup> day of the 4<sup>th</sup> month following the end of the tax year. Penalty is applicable if all remaining tax and interest due is not paid by the extended due date.**

**Line 17.** A penalty of \$500 is assessed to any partnership that fails to file a composite return for all its nonresident partners (PL 211-2007 SEC. 27, 44, 58). If all nonresident partners are not included on the composite return, please remit that penalty here.

**Line 18.:** If line 14 is greater than zero, add lines 14 – 17 and enclose a separate remittance for the total amount owed for each Form IT-65 filed. Please pay in U.S. funds. If paying by check, make check payable to Indiana Department of Revenue.

**Line 19.** If the total of lines 8 through 13 exceeds line 7, subtract the total of lines 15 through 17 from line 14. If the result is less than 0, this is the net overpayment. If penalties and interest are due because of a delinquent filing or payment, the overpayment must be reduced by these charges. If the result is a balance due, enter the difference on line 18. An overpayment credit may not be carried over to the following year, so any overpayment amount will be refunded.

### **Certification of Signatures and Authorization Section**

Sign, date, and print the name on the return. If a paid preparer completes the return, authorize the department to discuss the tax return with the preparer by checking the authorization box above the line for the name of the personal representative.

### **Personal Representative Information**

Typically, the department contacts a taxpayer if we have any questions or concerns about the tax return. If the taxpayer wants the department to be able to discuss the tax return with someone else (e.g., the person who prepared it or a designated person), this area must be completed.

First, check the “Yes” box that follows the sentence “I authorize the department to discuss my tax return with my personal representative.”

Next, enter:

- The name of the individual designating as a personal representative; and
- The individual's email address.

If this area is completed, the department is authorized to contact the personal representative, instead of the taxpayer, about this tax return. After the return is filed, the department will communicate primarily with the designated personal representative for any matters concerning this return.

**Note:** The authorization for the department to be in contact with your personal representative may be revoked at any time. To do so, tell us in a signed statement. Include the taxpayer name, federal identification number, and the year of the tax return. Mail the statement to Indiana Department of Revenue, P.O. Box 7206, Indianapolis, IN 46207-7206.

### **Officer Information**

An officer of the organization must sign and date the tax return and enter the officer's name and title. Please enter a daytime telephone number where the department may call if there are any questions about the tax return. Also, enter your email address to be contacted via email.

### **Paid Preparer Information**

Fill out this area if a paid preparer completed this tax return. The paid preparer must sign and date the return. In addition, please enter the following:

- The paid preparer's email address;
- The name of the firm the paid preparer is employed by;
- The paid preparer's PTIN (personal tax identification number). This must be the paid preparer's PTIN; do not enter an FID or Social Security number;
- The paid preparer's complete address.

**Note:** Complete this area even if the paid preparer is the same individual designated as the personal representative.

### **Mailing Options**

If taxes are owed, please mail the completed return to:

**Indiana Department of Revenue  
P.O. Box 7205  
Indianapolis, IN 46207-7205**

If taxes are not owed, please mail the completed return to:

**Indiana Department of Revenue  
P.O. Box 7147  
Indianapolis, IN 46207-7147**

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## **Instructions for Schedule IN K-1**

Enclose a copy of each partner's Schedule IN K-1 with Form IT-65.\* Also, provide a completed copy of Schedule IN K-1 to each partner.

\***New.** Beginning with tax years ending after Dec. 31, 2019, a taxpayer that is required to file 25 or more Schedule IN K-1s must file the Schedule IN K-1s in an electronic format. For taxpayers filing on a calendar year basis, this electronic filing requirement begins with tax year 2020.

## Worksheet for Partnership Distributive Share Income, Deductions and Credits

Use this worksheet to compute the entry for line 1 of Form IT-65 and to assist in computing amounts reported on Schedule IN K-1. Enter the total distributive share of income from each item as reportable on Form 1065, Schedule K. Do not complete Column B and C entry lines unless the partnership received distributive share or tiered income from other entities.

Distributive Share Amounts:	<b>A. Partnership Income All Sources</b>	<b>B. Distributions from Partnerships/ Estates/Trusts Everywhere</b>	<b>C. Distributions Attributed to Indiana</b>
<b>Partnership's Distributive Share of Items</b>			
1. Ordinary business income (loss) .....		Enter for line 14B below total distributive share income received by the partnership from all other non-unitary partnerships, estates, and trusts. Enter for line 15B an amount equal to required state modifications for Indiana Adjusted Gross Income. ↓	Enter for line 14C below, total distributive share income received by the partnership from other partnerships, estates, and trusts that were derived from or allocated to Indiana. Enter for line 15C an amount equal to the Indiana modifications to adjusted gross income attributed to Indiana. ↓
2. Net rental real estate income (loss) .....			
3. Other net rental income .....			
4. Guaranteed payments .....			
5. Interest Income .....			
6a. Ordinary dividends .....			
7. Royalties .....			
8. Net Short-term capital gain (loss) .....			
9a. Net long-term capital gain (loss) .....			
10. Net IRC Section 1231 gain (loss) .....			
11. Other income (loss) .....			
<b>Less allowable deductions for state tax purposes:</b>			
12. IRC Section 179 expense deduction 1 .....			
13A. Portion of expenses related to investment portfolio income including investment interest expense and other (federal non-itemized) deductions .....			
13B. Other information from line 20 of federal K-1 related to investment interest and expenses not listed elsewhere .....			
<b>14. Carry total on line 14A to Form IT-65 line 1, on front page of return</b> .....	14A	14B	14C
15. Total of Indiana state modifications to distributive share income (see line 2d, Form IT-65) .....		15B	15C
16. Net other Indiana adjusted gross income distributions from partnerships, estates, and trusts (add line 14C and 15C) .....			16C
17. Enter amount of Indiana pass-through credits attributed from other partnerships, estates, and trusts, if any .....			17C

## Worksheet for Apportioning Partnership Income for Unitary Corporate Partners

Use the worksheet whenever partnership income is being distributed to a corporate partner having a unitary relationship with the partnership. A unitary business relationship means maintaining business activities or operations that are of mutual benefit, dependent upon, or contributory to one another in transacting business between a corporate partner and the partnership. Unity may be established whenever there is unity of operation and use evidenced by centralized management or executive force, centralized purchasing, advertising, accounting, or other controlled interaction between a corporate partner and the partnership.

If a corporate partner and a partnership maintain a unitary business relationship as described above, the partnership distribution shall be distributed to the partner without any apportionment by the partnership. If the partner derives income from sources both within and outside Indiana and is required to apportion its income, the partner's apportionment factor shall include the partner's proportionate share of the apportionment factor of the partnership.

Use the following table to show apportionment factor's values from the partnership assigned to the unitary corporate partner. Partnerships deriving income from sources both within and outside Indiana or having any corporate partners must complete the Apportionment Schedule E.

Enter the partner's pro rata amounts as determined by the partnership entity's completed Apportionment Schedule E. Duplicate this worksheet for each corporate partner. (These amounts are to be included with the corporate partner's own apportionment factor.)

Apportionment Schedule E:	Receipts Factors	
Total from Indiana Sources	Line 1A	
Total from All States	Line 1B	

## Part 1 – Partner’s Identification Section

Complete a separate Schedule IN K-1 to identify each partner. Check the box if filing an amended return.

**Line 1.** Enter the name of the partner (individual, entity, trust name, etc.).

**Line 2.** Enter the partner’s Social Security number if an individual or the partner’s federal identification number (FID) if the partner is another entity.

**Line 3.** Enter the applicable pro rata percentage of the partner’s interest in the partnership. The percentage should be adjusted to an annual rate if necessary.

**Line 4.** Enter the partner’s state of residence or commercial domicile.

**Line 5.** Enter the name of the entity that remitted actual payment of the withholding.

**Line 6.** Enter the FID of the paying entity. Note: Do not obscure any digits when entering the FID number.

**Line 7.** Enter the amount of distributive share. This amount should include all Indiana add-backs and deductions.

**Line 8.** Enter the amount of Indiana state tax withheld. This amount should only include payments made into the corporate account and withholding amounts passed through by another entity.

**Line 9.** Enter the amount of Indiana county tax withheld.

## Part 2 – Pro Rata Share of Indiana Pass-through Tax Credits from Partnership

If the partnership has available any eligible Indiana credits flowing through to the partners, enter the following:

- Federal ID number from the entity that the credit was awarded to. If the credit is passed through from another entity enter the FID from Schedule IN K-1;
- The credit’s certification year;
- For credit codes 820, 839, 849, 857, 858, 860, 1820, 1849, 1858, and 1860, enter the credit’s certification, project, or PIN number;
- The credit’s 3- or 4-digit credit code; and
- The pro rata amount of credits allotted to each partner.

A completed IN-OCC credit schedule with Form IT-65 to support the credit distribution for certified credits must be enclosed, otherwise the credits will be denied.

See the descriptive list of pass-through tax credits that may be available to a pass-through entity on page 16. Each credit is assigned a 3- or 4-digit code number. This should be used for identification purposes when reporting and claiming these credits. For more information, see Income Tax Information Bulletin #59 available at [www.in.gov/dor/3650.htm](http://www.in.gov/dor/3650.htm).

**Note:** The 3-digit codes utilized on behalf of each partner on Schedule IN-OCC towards composite tax should be reflected as 4-digit codes on Part 2 of Schedule IN K-1. Any pro rata portion of the partner’s credit above the 4-digit amount previously utilized towards composite tax should be reported on Part 2 of Schedule IN K-1 as a 3-digit code and the remaining amount reflected in the amount claimed column.

**Example:** Company A used \$400 of the partner’s \$700 total Hoosier Business Investment Credit to offset his tax liability on the composite filing. The partner has \$300 remaining credit. The IN K-1 will breakdown the credit as follows:

Credit Name	3- or 4- Digit Code	Amount
Hoosier Business Investment Credit – Composite	1820	\$400
Hoosier Business Investment Credit	820	\$300

If the partner has other taxable Indiana-source income, Form IT-40PNR, reporting all Indiana-source income (including the income taxed on the composite return) should be filed. When completing the IN-OCC, the partner will be able to use up to \$700 of the HBI credit, using the amount associated with the 4-digit number first. For example, if the total state tax liability is \$500, “HBI 1820 \$400” will be listed on Schedule IN-OCC, and the remaining amount is then reported as needed as “HBI 820 \$100.” A 3-digit code 820 in the amount of \$200 remaining will be available to carryforward.

Credits reported on Part 2 of Schedule IN K-1 that are used to offset tax liabilities will be reported on the following lines on Form IT-65:

- Any credits not requiring an IN EDGE, IN EDGE-R, or IN-OCC schedule will be reported on line 10;
- EDGE credit code 839 will be reported on line 11;
- EDGE-R credit code 857 will be reported on line 12; and
- IN-OCC credit codes 820, 849, 858, 860, 1820, 1849, 1858, 1860 will be reported on line 13.

## Part 3 – Distributive Share Amount

Complete lines 1 through 14 for the partner. Also provide the partner with a Schedule IN K-1 showing the partner’s share of income, credits, and modifications. If filing federal Form 1065-B, convert taxable income distributions to federal Form 1065 Schedule K-1 format.

**Line 1 through line 13b.** For full-year Indiana resident partners, complete these lines as shown on the federal Schedule K-1, Form 1065 or Form 8865.

For most corporate partners and all nonresident individual partners, the federal Schedule K-1 amounts should be multiplied by the apportionment percentage calculated on Schedule E. See the instructions beginning in the next column. Enter the apportioned amounts on lines 1 through 13b. If any entries on lines 2 – 10 represent nonbusiness income to the partnership, these amounts are allocated to the appropriate state.

Line 6, Ordinary dividends, corresponds to line 6a on the federal K-1. Line 9, Net long-term capital gain (loss), corresponds to line 9a on the federal K-1.

On line 13a or 13b, include investment interest expenses attributed to royalty income. Also include all other federal deductions. However, do not include those deductions treated as itemized deductions. Do not report any other type of investment interest expense, itemized deduction, or carryover loss on this line.

**Note:** If the partnership has received any distributions from other entities having income previously apportioned to Indiana, use the following methodology below to report distributive share income for Schedule IN K-1.

### Alternative Completion of Schedule IN K-1 Information for Part 3

An alternative application of Schedule IN K-1 must be used for the following:

- Members who are nonresident individuals;
- Corporate partners; and
- Other partnerships if they had income from outside Indiana.

Use the following method to complete Schedule IN K-1 when the partnership had any apportioned income from outside Indiana or is otherwise required to complete the Indiana apportionment schedule.

Modify each required Schedule IN K-1 line by recalculating the pro rata share of total partnership income reported on line 1 of Form IT-65. Include all required Indiana modifications to AGI. Use the pro rata amount from line 14A on the Worksheet for Partnership Distributive Share Income, Deductions, and Credits by following these steps:

**Step 1.** Deduct from the above pro rata share the respective pro rata amount of line 14B and line 15B of the worksheet.

**Step 2.** Multiply the result by the Indiana apportionment percent reported on line 4 of Form IT-65. This can also be found on line 9 of Schedule E. This amount should reflect the partner's proportionate share of this partnership's activity in Indiana.

**Step 3.** Add to the above amount the pro rata share of any other (entity) source income this partnership received that was previously apportioned or allocated as distributive share income derived from Indiana. This can be found on line 16C of the worksheet. The result is the modified Indiana partnership income from Indiana sources. It should be reported on the appropriate lines of Schedule IN K-1 of nonresident individuals, corporations, and partnerships for AGI purposes.

Also use the Worksheet for Attributing Partnership Income to Unitary Corporate Partners to compile additional information for reporting distributive share income. Certain corporate partners require these additional income figures from the partnership to properly report distributive share incomes and to compute Indiana state income tax liabilities as a result of the partnership's activity in Indiana.

## Part 4 – State Modifications

**Lines 15 – 23.** Enter the Indiana modifications from the front of Form IT-65, lines 2a through 2c (and any additional sheets) as percentage applied. In the case of nonresident individuals, enter them as apportioned. List the pro rata share amount of each modification on the appropriate line. (Use a negative sign to denote negative amounts.)

**Line 24.** Enter the total distributive share of modifications. Add lines 15 through 23. Use a negative sign to denote negative amounts. Carry this total to column B of Schedule Composite.

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## Instructions for Schedule E, Apportionment of Income for Indiana

Complete the apportionment of income schedule whenever the corporation:

- Has income derived from sources both within and outside Indiana; and
- Has any nonresident partners.

The apportionment percentage determines the Indiana net income of the nonresident individual partners, trusts, and estates that pass through as a result of the partnership's activities everywhere.

**Note:** Interstate transportation companies should consult Schedule E-7 for details concerning apportionment of income. This schedule is available at [www.in.gov/dor/6525.htm](http://www.in.gov/dor/6525.htm).

### Part I – Apportionment of Adjusted Gross Income

**Sales/Receipts:** The sales factor is a fraction. The numerator is the total receipts of the taxpayer in Indiana during the tax year. The denominator is the total receipts of the taxpayer in all jurisdictions during the tax year.

In the case of certain receipts, all or a portion of the receipts are not included.

- For receipts includible under IRC section 965 or GILTI (IRC Section 951A), the amount included as a receipt is the amount included in adjusted gross income minus any amount claimed as a foreign source dividend under IC 6-3-2-12.
- Receipts do not include deemed foreign dividends under IRC section 965 or GILTI.
- For receipts from the sale of securities, including stocks, bonds, options, and future and forward contracts, only the net gain from the sale is treated as a receipt.
- For receipts from hedging or similar transactions, only the net gain resulting from both sets of transactions is treated as a receipt.

The numerator of the receipts factor must include the following to the extent included in the receipts numerator:

- All sales made in Indiana;
- All sales made from Indiana to the U.S. government;
- All receipts from sales of business property in Indiana; and
- All interest, dividend, or other intangible income earned in Indiana.

The numerator contains intangible income attributed to Indiana, including interest from consumer and commercial loans, installment sales contracts, and credit and debit cards as prescribed under IC 6-3-2-2.2.

Total receipts include gross sales of real and tangible personal property less returns and allowances. Sales of tangible personal property are in Indiana if the property is delivered or shipped to a purchaser within Indiana regardless of the f.o.b. point or other conditions of sale. For tax years beginning on or after Jan. 1, 2016, Indiana no longer requires the inclusion of “throwback” sales in the numerator of the receipts factor.

Sales or receipts not specifically attributed above shall be attributed as follows:

- Gross receipts from the sale, rental, or lease of real property are in Indiana if the real property is located in Indiana;
- Gross receipts from the rental, lease, or licensing of the use of tangible personal property are in Indiana if the property is in Indiana. If property was both within and outside Indiana during the tax year, the gross receipts are considered in Indiana to the extent the property was used in Indiana;
- Interest income and other receipts from loans or installment sales contracts that are primarily secured by or deal with real or tangible personal property are attributed to Indiana if the security or sale property is located in Indiana; consumer loans not secured by real or tangible personal property are attributed to Indiana if the loan is made to an Indiana resident; and commercial loans and installment obligations not secured by real or tangible personal property are attributed to Indiana if the proceeds of the loan are applied in Indiana.
- Interest income, merchant discounts, travel and entertainment credit card receivables, and credit card holder’s fees are attributed to the state where the card charges and fees are regularly billed.
- Receipts from the performance of fiduciary and other services are attributed to the state where the benefits of the services are consumed. Receipts from the issuance of traveler’s checks, money orders, or United States savings bonds are attributed to the state where those items are purchased.
- Receipts from investments are attributed to Indiana if the taxpayer’s commercial domicile is in Indiana.
- Gross receipts from the performance of certain telecommunications and broadcast services are attributed to Indiana if the income-producing activity is in Indiana. If such activities are conducted partly within and partly outside Indiana, the gross receipts from the services are attributable to Indiana if the direct costs incurred in Indiana related to those receipts are greater than the direct costs incurred in any other state, unless the activities are otherwise directly attributed to Indiana according to IC 6-3-2-2.2 or IC 6-3-2-2(f).

- Receipts from other services and other intangibles are attributed to Indiana if the benefit of the service or intangible is received in Indiana. Please see [regulations] for further information on whether the receipts from a particular transaction are attributed to Indiana.

**Sales to the United States Government:** The United States government is the purchaser when it makes direct payment to the seller. A sale to the United States government of tangible personal property is in Indiana if it is shipped from an office, a store, a warehouse, or another place of storage in Indiana. See the previous rules for sales other than tangible personal property if such sales are made to the United States government.

**Other Gross Receipts:** On line 6, report other gross business receipts not included elsewhere.

On line 7, report direct premiums and annuity considerations received during the taxable year for insurance upon property or risks in Indiana. The terms *direct premiums and annuity considerations* mean the gross premiums received from direct business as reported in the corporation’s annual statement filed with the Department of Insurance.

**Total Receipts:** Complete all lines as indicated. Add all the receipts in Column A (lines 1A through 7A), and enter the total on line 8A. In addition, enter the total receipts from all jurisdictions on line 8B.

#### **Apportionment of Income for Indiana**

Divide line 8A by line 8B. Multiply by 100 to arrive at a percentage rounded to the nearest second decimal place. This is the Indiana apportionment percentage; carry it to the apportionment entry line on the return, line 4 on Form IT-65.

#### **Part II - Business/Other Income Questionnaire**

Complete all applicable questions in this section. If income is apportioned, enclose the completed Schedule E, Apportionment of Income, with Form IT-65.

The completed Schedule E, Apportionment of Income, must be enclosed with the return.

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## **Instructions for Schedule Composite/ Schedule Composite-COR**

Any partnership that has partners who are nonresidents of Indiana must file a composite return and include all its nonresident partners. Submit a Schedule Composite for all individual/non-corporate partners and a Schedule Composite-COR for all corporate partners. A partnership will be assessed a penalty of \$500 if it fails to file a composite return that includes all nonresident partners that have positive, distributive shares of income. However, if a nonresident partner’s distributive share of income plus modifications is a negative amount, the partner should not be included on the Schedule Composite.

The composite returns must be filed with and have the same due date as the partnership return. If the IRS allows the partnership an extension to file its tax return, the due date for its Indiana return is automatically extended for the same period, plus 30 days.

### Filing Requirements for Schedule Composite/Schedule Composite-COR

The following limitations and conditions apply to each partner included as a member in the composite return:

- No deduction is permitted for carryover of net operating losses or capital losses;
- No personal exemption is permitted;
- No deduction is allowed for charitable contributions allowed or allowable pursuant to IRC Section 170;
- No credit is permitted for taxes paid to other states;
- No credit carryovers are permitted (except for those on Schedule IN-OCC); and
- All other credits that flow through to partners on a pro rata basis are limited to the partner's state income tax liability. See the list of Pass-through Tax Credits.

The partnership filing a composite return is liable for the tax shown on the return. It is also liable for any additional tax, interest, and penalty as a result of a subsequent audit or examination. Any refund of state or county tax as a result of filing a composite return will be remitted directly to the partnership. The partnership should send a copy of the general Indiana filing requirements to each nonresident partner.

### Instructions for Completing Schedule Composite/Schedule Composite-COR

Indicate the name of each nonresident partner on the appropriate schedule. Subject to the limitations and conditions specified in the filing requirements, separately compute the state tax liability on the composite return attributable to each nonresident partner. See Schedule CT-40, page 2, at [www.in.gov/dor/6281.htm](http://www.in.gov/dor/6281.htm) to get the applicable county tax rate.

**Note:** The name of all nonresident individuals of reverse credit agreement states who are subject to and pay income taxes at rates equal to or greater than Indiana's individual income tax rate to the resident states must be listed on the Schedule Composite, but with the amount of withholding tax/credit for these partners listed as zero.

**Column A.** Enter the apportioned distributive income attributed to Indiana from Schedule IN K-1.

**Column B.** Enter the Indiana modifications from Schedule IN K-1.

**Column C.** The amount of adjusted gross income for each partner is the apportioned distributive income plus the Indiana modifications (column A + column B).

**Column D.** Multiply the adjusted gross income by the tax rate that corresponds to the appropriate entity type. If the tax is being assessed on a pass-through entity included on the composite, the tax rate used will be the individual income tax rate.

If completing **Schedule Composite-COR**, enter the amount from line 29D on Form IT-65, line 6b.

**Column E.** County tax must be calculated on nonresident individual owners if two conditions are met for that owner.

- First, the nonresident individual must have a principal place of employment or business (e.g., self-employment) in an Indiana county as of January 1 of the taxable year.
- Second, the business must have income from the individual's county of principal employment or business during that year. If a business has income from more than one Indiana county, only the portion derived from the individual's county of principal employment or business is subject to Indiana county income tax. To determine what portion of the income is derived from a county, the business shall apportion its Indiana adjusted gross income across counties based on the receipts derived from each county.

In the case of an individual whose only Indiana activity is owning an interest in the entity, do not enter an amount for county tax for that individual.

**New.** Notwithstanding any other requirement, a nonresident individual who is subject to Indiana county income tax on Schedule Composite (Column E) is required to file a nonresident individual income tax return, Form IT-40PNR, to report all sources of Indiana income.

**Note.** If the nonresident owner is also employed by the business, the business shall use the county reported on the owner/employee's WH-4 to determine whether or where withholding is required.

*Example.* Individual X, a nonresident of Indiana, is a 50% owner of a business that operates in St. Joseph County and Elkhart County. Individual X works at the business's St. Joseph County location. The business has \$200,000 in Indiana adjusted gross income, with 60% of the receipts derived from St. Joseph County and 40% from Elkhart County. Of Individual X's \$100,000 income, \$60,000 ( $\$100,000 \times 60\%$ ) from St. Joseph County is subject to county income tax and withholding and the remaining \$40,000 from Elkhart County is not subject to county income tax.

The county income tax rate is located on page 2 of Schedule CT-40 or Schedule CT-40PNR, which can be found on the department's website at [www.in.gov/dor/6524.htm](http://www.in.gov/dor/6524.htm).

Get income tax Information Bulletin #72 at [www.in.gov/dor/3650.htm](http://www.in.gov/dor/3650.htm) for additional information.

**Column F.** The amount of tax liability for each nonresident partner is the state tax plus county tax (column D + column E).

Enter the amount from Schedule Composite, line 15F on Form IT-65, line 6a.



**Note:** A federal Schedule K-1 for each partner is not required to be enclosed but must be made available for inspection upon request by the department.

### **Pass-through Tax Credits**

Each partner is allowed a pro rata share of the income tax credits available to the partnership. Each partner's share of an available credit is reported on Schedule IN K-1, Part 2. It must be supported by enclosing the properly completed tax credit schedule or form with the partnership's return.

**Note:** Enterprise zone credits and most other tax liability credits may not be applied against the partnership's withholding or use tax liabilities on Form IT-65.

**Caution:** A taxpayer cannot be granted more than one of the following credits for the same project:

- Community Revitalization Enhancement District Credit;
- Enterprise Zone Investment Cost Credit;
- Hoosier Business Investment Credit;
- Industrial Recovery Credit; and
- Venture Capital Investment Credit.

Apply this restriction first when figuring allowable credits. See Commissioner's Directive #29 at [www.in.gov/dor/3617.htm](http://www.in.gov/dor/3617.htm) for more information.

### **Order of Credit Application**

If claiming more than one credit, first use the credits that cannot be carried over and applied against the state AGI in another year. Next, use the credits that can be carried over for a limited number of years and applied against the state AGI. If one or more credits are available, apply the credits in the order that the credits would expire. Finally, use the credits that can be carried over and applied against the state AGI in another year.

Example: Imagine a scenario in which a business has the following credits available to be claimed:

- A neighborhood assistance credit for which no carryover is available;
- A school scholarship credit that can be carried forward to 2023; and
- A community revitalization enhancement district credit with an indefinite carryforward period.

The taxpayer would apply the credits in the following order until the credit is exhausted or their liability is reduced to zero, whichever comes first:

- Neighborhood assistance credit
- School scholarship credit expiring in 2023
- Community revitalization enhancement district credit

For more information about Indiana tax credits, see Income Tax Information Bulletin #59 available at [www.in.gov/dor/3650.htm](http://www.in.gov/dor/3650.htm).

The following credits have been assigned a three-digit code for identification purposes. Use the code when reporting and claiming any of these credits. Refer to Income Tax Information Bulletin #59 available at [www.in.gov/dor/3650.htm](http://www.in.gov/dor/3650.htm) for more information.

### **Airport Development Zone Employment Expense Credit 800**

This credit has been repealed. However, any previously approved yet unused credit is available to be claimed.

### **Airport Development Zone Investment Cost Credit 801**

This credit has been repealed. However, any previously approved yet unused credit is available to be claimed.

### **Airport Development Zone Loan Interest Credit 802**

This credit has been repealed. However, any previously approved yet unused credit is available to be claimed.

### **Alternative Fuel Vehicle Manufacturer Credit 845**

This credit has been repealed. However, any previously approved yet unused credit is available to be claimed.

### **Blended Biodiesel Credits 803**

This credit has been repealed. However, any previously approved yet unused credit is available to be claimed.

### **Coal Gasification Technology Investment Tax Credit 806**

A credit is available for a qualified investment in an integrated coal gasification power plant or a fluidized bed combustion technology that serves Indiana gas utility and electric utility consumers. This can include an investment in a facility located in Indiana that converts coal into synthesis gas that can be used as a substitute for natural gas.

An application for certification must be filed with the IEDC. If the credit is assigned, it must be approved by the utility regulatory commission and taken in 10 annual installments. The amount of credit for a coal gasification power plant is 10% of the first \$500 million invested and 5 % for any amount over that. The amount of credit for a fluidized bed combustion technology is 7% of the first \$500 million invested and 3% for any amount over that.

For more information, contact the Indiana Economic Development Corporation at One North Capitol, Suite 700, Indianapolis, IN 46204 or visit the website at [iedc.in.gov](http://iedc.in.gov). For more information, see Income Tax Information Bulletin #99 available at [www.in.gov/dor/3650.htm](http://www.in.gov/dor/3650.htm).

### **Community Revitalization Enhancement District Credit 808**

A state and local income tax liability credit is available for a qualified investment for the redevelopment or rehabilitation of property within a community revitalization enhancement district. To be eligible for the credit, the intended expenditure plan must be approved by the IEDC before the expenditure is made. The credit is equal to 25% of the IEDC-approved qualified investment made by the taxpayer during the tax year. The department has the authority to disallow any credit if the taxpayer:

- Ceases existing operations;
- Substantially reduces its operations within the district or elsewhere in Indiana; or
- Reduces other Indiana operations to relocate them into the district.

The taxpayer can assign the credit to a lessee who remains subject to the same requirements. The assignment must be in writing. Any consideration may not exceed the value of the part of the credit assigned. Both parties must report the assignment on state income tax returns for the year of assignment.

Enclose the certification from the IEDC, otherwise the credit will be denied.

Contact the Indiana Economic Development Corporation at One North Capitol, Suite 700, Indianapolis, IN, 46204, or visit the website at [iedc.in.gov](http://iedc.in.gov) for more information about this credit.

### **Economic Development for a Growing Economy (EDGE) Credit**

This credit is for businesses that conduct certain activities designed to foster job creation in Indiana. It is a refundable tax liability credit.

**Note:** Schedule IN-EDGE must be completed and enclosed with the return, regardless of whether it is claimed at the partnership or pass-through level. Otherwise the credit will be denied. A PIN must be obtained from the IEDC.

Claim this credit on line 11 of Form IT-65 and/or on Part 2 of Schedule IN K-1.

Contact the Indiana Economic Development Corporation at One North Capitol, Suite 700, Indianapolis, IN 46204, for eligibility requirements. Visit [www.iedc.in.gov](http://www.iedc.in.gov) for additional information.

### **Economic Development for a Growing Economy Retention (EDGE-R) Credit**

This credit is for businesses that conduct certain activities designed to foster job retention in Indiana. It is a refundable tax liability credit. The aggregate amount of credits awarded for projects to retain existing jobs in Indiana is capped at \$10 million per year.

**Note:** Schedule IN-EDGE-R must be completed and enclosed with the return, whether it is claimed at the partnership or pass-through level. Otherwise, the credit will be denied. A PIN must be obtained from the IEDC.

Claim this credit on line 12 of the return and/or on Part 2 of Schedule IN K-1.

If claiming the EDGE or EDGE-R credit at both the partnership and pass-through levels, the amount of credit claimed may not exceed the total credit approved. Whether claiming at the pass-through or entity level, the Schedule EDGE or EDGE-R must be enclosed with Form IT-65. Contact the Indiana Economic Development Corporation at One North Capitol, Suite 700, Indianapolis, IN 46204, for eligibility requirements. Visit [www.iedc.in.gov](http://www.iedc.in.gov) for additional information.

### **Enterprise Zone Employment Expense Tax Credit 812**

This credit is available for employers based on qualified investments made within Indiana. It is the lesser of 10% of qualifying wages or \$1,500 per qualified employee, up to the amount of tax liability on income derived from an active enterprise zone. Enclose the completed Schedule EZ 2 with Form IT-65 return to claim this credit.

See Indiana Schedule EZ Parts 1, 2, and 3 available at [www.in.gov/dor/3515.htm](http://www.in.gov/dor/3515.htm) for more information.

### **Enterprise Zone Loan Interest Tax Credit 814**

This credit can be for up to 5% of the interest received from all qualified loans made during a tax year for use in an active Indiana enterprise zone.

See Information Bulletin #66 available at [www.in.gov/dor/3650.htm](http://www.in.gov/dor/3650.htm) and Indiana Schedule LIC available at [www.in.gov/dor/3515.htm](http://www.in.gov/dor/3515.htm) for more information about how to calculate this credit. Enclose the completed enterprise zone Schedule LIC with Form IT-65 return. For more information, contact the Indiana Economic Development Corporation, One North Capitol, Suite 700, Indianapolis, IN, 46204. Call IEDC at (317) 232-8800 or visit [www.iedc.in.gov](http://www.iedc.in.gov).

Enclose the certification from the IEDC, otherwise the credit will be denied.

### **Ethanol Production Tax Credit 815**

This credit has been repealed. However, any previously approved yet unused credit is available to be claimed.

### **Headquarters Relocation Credit – Offset 818 &/or Refundable**

Effective July 1, 2019, some or all of this credit may be available to be refunded to the owners. See **New\*** below for more information.

A business may be eligible for a credit if it meets one of two sets of criteria. The first set of criteria (“first test”) is that the business meets all of the following:

- Has an annual worldwide revenue of \$50 million;
- Has at least 75 Indiana employees; and
- Relocates its corporate headquarters to Indiana.

**\*New.** Effective July 1, 2019, the second set of criteria (“second test”) is that the business meets either (1) or (2), meets (3), and meets (4) or (5):

- (1) Received at least \$4 million in venture capital in the six months immediately preceding the business’s application for this tax credit.
- (2) Closes on at least \$4,000,000 in venture capital not more than six months after submitting the business’s application for this tax credit.
- (3) Has at least 10 Indiana employees.
- (4) Relocates its corporate headquarters to Indiana.
- (5) Relocates the number of jobs equal to 80% of the business’s total payroll during the immediately preceding quarter to an Indiana location.

**Important.** While both the entity and the owners may be eligible to claim an offset credit (818), only the owners are eligible to claim their share of any refundable credit if the IEDC has granted a refundable credit under the second test above.

The credit may be as much as 50% of the cost incurred in relocating the taxpayer's headquarters. For more information (including limitations on the credit and the application process), see Income Tax Information Bulletin #97, available at [www.in.gov/dor/3650.htm](http://www.in.gov/dor/3650.htm). This credit is administered by the IEDC. Contact them at One North Capitol, Suite 700, Indianapolis, IN 46204, via website at [www.iedc.in.gov](http://www.iedc.in.gov), or by phone at (317) 232-8800.

Submit a copy of the letter from the IEDC which:

- verifies the amount of tax credit for the taxable year, and
- designates the amount of credit that is refundable (if any).

Enter code 818 on Schedule IN K-1 to:

- designate any offset portion of this credit, and/or
- designate any refundable portion of this credit.

Maintain with your records proof of the relocation costs as well as proof of employment of the minimum number of employees in Indiana and, if applicable, payroll in both Indiana and everywhere, as the department may request this information at a later date.

### **Historic Building Rehabilitation Tax Credit 819**

This credit has been repealed. However, any previously approved yet unused credit is available to be claimed.

### **Hoosier Business Investment Tax Credit 820**

This credit is for qualified investments, including costs associated with the following:

- Constructing special-purpose buildings and foundations;
- Making onsite infrastructure improvements;
- Modernizing existing equipment;
- Purchasing equipment used to make motion pictures or audio production;
- Purchasing or constructing new equipment directly related to expanding the workforce in Indiana;
- Retooling existing machinery and equipment;
- Purchasing retooled or refurbished machinery;
- Constructing or modernizing transportation or logistical distribution facilities;
- Improving the transportation of goods via highway, rail, air, or water;
- Improving warehousing and logistical capabilities;
- Purchasing new pollution control, energy conservation, or renewable energy generation equipment; and
- Purchasing new onsite digital manufacturing equipment.

It does not include property that can be readily moved out of Indiana.

This credit is administered by the IEDC at One North Capitol, Suite 700, Indianapolis, IN, 46204. Visit [www.iedc.in.gov](http://www.iedc.in.gov) or call (317) 233-3638 for more information. Also, see Information Bulletin #95 available at [www.in.gov/dor/3650.htm](http://www.in.gov/dor/3650.htm).

Submit a copy of the IEDC certificate verifying the amount of tax credit for the taxable year with the return, otherwise the credit will be denied. This credit must be claimed on Schedule IN-OCC.

### **Indiana Research Expense Tax Credit 822**

Indiana has a research expense credit that is similar to the federal credit (Form 6765) for increasing research activities for qualifying expenses paid in carrying on a trade or business in Indiana. Compute the credit using Schedule IT-20REC. To claim a portion of a prior-year Indiana Research Expense Credit, please include Schedule IT-20REC from the prior year being utilized along with a statement reflecting the utilization of the prior-year credit up to this point.

Schedule IT-20 REC, available at [www.in.gov/dor/6525.htm](http://www.in.gov/dor/6525.htm), must be completed and enclosed with the return to claim this credit; otherwise, the credit will be denied. For more information, visit the department's website at [www.in.gov/dor/](http://www.in.gov/dor/). Filers claiming the research expense credit should maintain and keep documentation supporting the credit in a useable form.

**Important.** Make sure to check Box U on Form IT-65 if claiming this credit.

### **Individual Development Account Tax Credit 823**

A credit is available for contributions made to a community development corporation participating in an Individual Development Account (IDA) program. The IDA program is designed to assist qualifying low-income residents in accumulating savings and building personal finance skills. The organization must have an approved program number from the Indiana Housing and Community Development Authority (IHCDA) for a contribution to qualify for preapproval. The credit is equal to 50% of the contribution, which must be between \$100 and \$50,000.

Applications for the credit are filed through the IHCDA. To request more information about this credit, contact the Indiana Housing and Community Development Authority at 30 S. Meridian St., Suite 1000, Indianapolis, IN 46204 or call (317) 232-7777.

Keep any approval certification or letter of credit assignment with your records as the department can require you to provide this information at a later date.

### **Industrial Recovery Credit 824**

This credit is based on a taxpayer's qualified investment in a vacant industrial facility located in a designated industrial recovery site. If the Indiana Economic Development Corporation approves the application and the plan for rehabilitation, you are entitled to a credit based on the "qualified investment." The minimum age for a facility to be eligible for this credit has been reduced from 20 years to 15 years. This credit is available to pass-through entities, such as members of partnerships and S corporations.

**Note.** Effective July 1, 2019, except for in situations described in the next sentence, a taxpayer is entitled to receive this credit only for a qualified investment made before January 1, 2020. A taxpayer is entitled to receive a credit for a qualified investment made after December 31, 2019, and before January 1, 2030, if the taxpayer is awarded a credit under:

- an application approved by the Indiana Economic Development Corporation (IEDC) before January 1, 2020; or
- an agreement entered into by the taxpayer and IEDC before January 1, 2021.
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**Important.** Any unused credit existing before Jan. 01, 2020, is still eligible for carryforward for an unlimited number of years.

For additional information regarding procedures for obtaining this credit, contact the Indiana Economic Development Corporation, One North Capitol, Suite 700, Indianapolis, IN 46204, call (317) 232-8800, or visit their website at <http://iedc.in.gov>.

**Note:** See the section “Restriction for Certain Tax Credits - Limited to One per Project” on page 21.

### **Military Base Investment Cost Credit 826**

This credit has been repealed. However, any previously approved yet unused credit is available to be claimed.

### **Military Base Recovery Credit 827**

This credit has been repealed. However, any previously approved yet unused credit is available to be claimed.

### **Natural Gas Commercial Vehicle Credit 858**

This credit has sunset. However, any previously approved yet unused credit is available to be claimed.

This carryforward credit is available to pass-through entities, such as members of partnerships and S corporations.

The carryforward portion of the previously approved credit must be reported on Schedule IN-OCC, found at [www.in.gov/dor/6525.htm](http://www.in.gov/dor/6525.htm). Make sure to enclose this schedule with your tax filing. If you are claiming this credit as a pass-through entity, make sure to keep Schedule IN K-1 with your records as the department can require you to provide this information.

### **Neighborhood Assistance Tax Credit 828**

If a contribution is made to the Neighborhood Assistance Program (NAP) or activities were engaged in to upgrade areas in Indiana, a credit for this assistance may be available. Effective July 1, 2014, contributions to organizations that provide services to individuals who are ex-offenders are also eligible for this credit. Contact the Indiana Housing and Community Development Authority, Neighborhood Assistance Program, 30 S. Meridian St., Suite 1000, Indianapolis, IN 46204, for more information. Call (317) 232-7777 within Indianapolis or (800) 872-0371 outside of Indianapolis.

### **New Employer Credit 850**

This credit has been repealed. However, any previously approved yet unused credit is available to be claimed.

### **Riverboat Building Credit 832**

This credit has been repealed. However, any previously approved yet unused credit is available to be claimed.

### **School Scholarship Credit 849**

A credit is available for contributions to school scholarship programs. A taxpayer that makes a qualifying contribution to a scholarship granting organization (SGO) is entitled to a credit against the state tax liability in the taxable year in which the contribution is made. The amount of a taxpayer’s credit is equal to 50% of the amount of the contribution made to the SGO for a school scholarship program. Effective Jan. 1, 2013, this credit can now be carried forward for nine years after the unused credit year.

**Note:** Credits that apply to taxable years beginning before Jan. 1, 2013, may not be carried forward.

To qualify for the credit, the taxpayer must:

- Make a contribution to a scholarship granting organization that is certified by the Department of Education under IC 20-51;
- Make the contribution directly to the SGO;
- Designate in writing to the SGO that the contribution is to be used solely for a school scholarship program or have written confirmation from the SGO that the contribution will be used solely for a school scholarship program.

Although there are no limits on the size of a qualifying contribution to an SGO, the entire tax credit program has a limit of \$15 million in credits per state fiscal year of July 1, 2019 through June 30, 2020.

Enclose Schedule IN-OCC to claim this credit, otherwise the credit will be denied.

### **Venture Capital Investment Tax Credit 835**

A taxpayer who provides qualified investment capital to a Qualified Indiana Business may be eligible for this credit. Per IC 6-3.1-24-8, for calendar years beginning after Dec. 31, 2010, the maximum credit available to a qualified business is \$1 million. The carryforward provision is limited to five years.

**Note:** Certification for this credit must be obtained from the Indiana Economic Development Corporation, Development Finance Office, VCI Credit Program, One North Capitol, Suite 700, Indianapolis, IN 46204. Apply online through the IEDC’s website at [www.iedc.in.gov](http://www.iedc.in.gov) or call them at (317) 232-8800.

A copy of the certificate and proof that the investment capital was provided to the qualified business within two years after the certification of the investment plan must be enclosed with the tax return, otherwise the credit will be denied.

## Restriction for Certain Tax Credits - Limited to One Per Project

A taxpayer may not be granted more than one credit for the same project. The credits that are included are the alternative fuel vehicle manufacturer credit, community revitalization enhancement district credit, enterprise zone investment cost credit, Hoosier business investment credit, industrial recovery credit, and the venture capital investment credit.

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- Electric energy;
- Natural gas;
- Water;
- Steam;
- Sewage; and
- Telecommunications.

If there are more than \$1,000 in gross receipts from the sale of utility services, Form URT-1 may need to be filed, in addition to Form IT-65. Refer to Commissioner's Directive #18 available at [www.in.gov/dor/3617.htm](http://www.in.gov/dor/3617.htm).

## Reminders

- Complete the partnership's identification section.
- If the partnership's name has changed, check the box at the top of the return. Enclose with the return copies of the articles of amendment filed with the Indiana Secretary of State.
- List the name of the Indiana county; enter "00" (two zeroes) in the county box to indicate an out-of-state business operation.
- Partnerships filing on a fiscal-year basis must enter tax year beginning and ending dates.
- A composite return listing all nonresident partners must be filed on Schedule Composite/Schedule Composite-COR.
- Enclose Schedule E- Apportionment of Income, if applicable.
- Enclose the first five pages of the U.S. Partnership Return of Income, Form 1065 or Form 1065 B, and Schedule M-3.

## Utility Services Use Tax

An excise tax known as the utility services use tax is imposed on the retail consumption of utility services in Indiana where the utility receipts tax is not paid by the utility providing the service. This tax is imposed at the rate of 1.4%.

A taxpayer might be liable for this tax if utility services from outside Indiana (or anywhere if for resale) and become the end user in Indiana of any part of the purchase. The person who consumes the utility service is liable for the utility services use tax. The tax is based on the price of the purchase. Unless the seller of the utility service is registered with the department to collect the utility services use tax on the taxpayer's behalf, remit this tax on Form USU-103. For more information, see Commissioner's Directive #32 available at [www.in.gov/dor/3617.htm](http://www.in.gov/dor/3617.htm).

## INtax

Reduce the burden of managing sales and withholding tax obligations by using INtax, Indiana's free online business tax filing program. INtax puts the business owner in control of the tax accounts.

INtax features include:

- File and pay any time of day;
- Schedule future payments;
- Check account balances instantly;
- Manage multiple businesses under one profile;
- Review transaction history and receipt confirmation;
- Establish multiple users and set access rights by user; and
- Correspond directly and confidentially with the department.

To take advantage of this free service, visit [www.in.gov/dor/3963.htm](http://www.in.gov/dor/3963.htm).

The department's website provides access to forms, information bulletins and directives, tax publications, email, and various filing options. Visit [www.in.gov/dor/](http://www.in.gov/dor/) to access all of this.

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## Additional Information

### Utility Receipts Tax

A Utility Receipts Tax is imposed at the rate of 1.4 % of the taxable receipts from the retail sale of utility services. Use Form URT-1 (Utility Receipts Tax Return) for this tax. Gross receipts are defined as the value received for the retail sale of utility services. The utility services subject to tax include:

### How to Register as a Withholding Agent

A partnership with any employee for which withholding tax reporting is required as previously described is required to register as an Indiana withholding agent. The department assigns an Indiana TID. This TID consists of:

- A 10-digit number exclusive to the taxpayer; and
- A 3-digit number for the location being registered.

The partnership has two options:

- The partnership can register with the department online using INBiz ([www.inbiz.in.gov](http://www.inbiz.in.gov)); or
- The second option is to visit either the department's downtown Indianapolis office or one of the district offices located throughout the state to use the department's kiosks to register online.

**Note:** All businesses must electronically file and remit sales and/or withholding taxes. Businesses can file and remit withholding taxes through INtax ([www.intax.in.gov](http://www.intax.in.gov)) or a third-party vendor; they can also use INtax to file and remit sales tax.

### Employee Withholding Payment

**Form WH-1** – Amounts withheld from employees should be included in the remittance with Form WH-1.

**Form WH-3** – The withholding agent must complete and file an annual Withholding Tax Reconciliation Return, Form WH-3. This must be filed by the end of the first month following the close of the tax period for employee withholding accounts. The agent must include the following:

- The Indiana taxpayer identification number (TID);
- The partnership's name; and
- The calendar year.

Form WH-3 is the taxpayer's return for the reporting period and is used to reconcile the monthly or annual WH-1s and to report the actual amounts due for the period. When remitting this form, the business must also remit the supporting W-2s, 1099s, etc. Effective Jan. 1, 2013, the way in which the WH-3 is submitted depends on the number of statements filed in a year. Follow these guidelines:

- If filing **fewer than 25** statements for the entire tax year, paper copies of the withholding forms (WH-1, WH-3, W-2s, W-2Gs, and 1099s) can be filed. You can also submit them via the state's online INtax application ([www.intax.in.gov](http://www.intax.in.gov)) or use a third-party vendor to electronically submit them.
- If filing **more than 25 but fewer than 3,500** statements, all of withholding forms must be filed electronically. Either use the state's online INtax application ([www.intax.in.gov](http://www.intax.in.gov)) or a third-party vendor to electronically file.
- If filing **more than 3,500** statements, either have a third-party vendor submit the withholding forms or file using bulk upload. For more information, see the department's *Bulk Upload Guide* available at [www.in.gov/dor/files/bulk-upload-guide.pdf](http://www.in.gov/dor/files/bulk-upload-guide.pdf).

**How to Fill Out Form WH-3** – On Form WH-3, the withholding agent enters the total annual amount of state and county income taxes or other taxes withheld from employees receiving income subject to Indiana withholding. These amounts must match what is listed on federal Form W-2. The amount of county tax withheld during the year is separated according to the amounts withheld for each county.

If the withholding agent has overpaid the withholding liability for the year, it is entitled to a refund. Enter the amount to be refunded on Form WH-3. Also, provide an explanation.

If the withholding agent has underpaid the payroll withholding liability for the year, the agent does not submit the payment with Form WH-3. Instead, it completes Form WH-1U. **This is included with the WH-3 packet if filing fewer than 25 statements per year and still receive paper coupons.** The withholding agent submits the payment under separate cover and must indicate the Indiana TID and the period to which the payment should be applied. **If filing more than 25 statements per year or filing fewer than 25 but filed electronically last year, payment must be made for underpaid liabilities via INtax.**

### Partner's Liability and Filing Requirements

A partner's share of profit or loss from a partnership is included in the partner's calculation of federal AGI. It is generally subject to the same rules for arriving at Indiana AGI. Thus, a partner's distributive share, before any modifications required by Indiana statutes, is the same ratio and amount as determined under IRC Section 704 and its prescribed regulations. The partners include shares of all partnership income, whether distributed or undistributed, on their separate entity or individual Indiana income or franchise tax returns. Each partner's distributive share of income is adjusted by modifications provided for in IC 6-3-1-3.5(a) or (b).

### Individual Partners

**Residents** – A resident partner reports the entire distributive share of partnership income (loss) as adjusted, no matter where the partnership's business is located or in which state(s) it does business. Form IT-40 (Indiana Individual Income Tax Return) should be completed by each individual partner.

**Nonresidents** – The nonresident individual partner will be included on Schedule Composite and have amounts withheld on the distributive share of income. Schedule IN K-1 will be used to replace a WH-18 since the withholding is paid into the corporate account by using an IT-6WTH. The partner must claim credit on an IT-40PNR return by enclosing Schedule IN K-1 for amounts withheld by the partnership from the partner's distributive share of income. Nonresident partners are exempt from filing individual income tax returns if all Indiana income is reported on the composite return schedule. Nonresident partners with other Indiana-source income or who wish to benefit from other deductions or credits not available on a composite return should file Form IT-40PNR.

#### Important:

- Full-year nonresident partners are exempt from filing an individual income tax return if:
  - o all Indiana income is reported on the composite return schedule, and
  - o no county tax was withheld\* on Schedule Composite, Column E.

\*If county tax was withheld, the nonresident must file Form IT-40PNR.

- A part-year nonresident partner must file Form IT-40PNR to report:
  - o The total amount of income (loss) received while residing in Indiana;
  - o That part of Indiana source income received while a nonresident; and
  - o Apportioned Indiana income (loss), as modified, received by a nonresident of Indiana.

**Note:** Passive losses may not exceed the limits imposed by IRC Section 469. Also, losses may not exceed the partner's investment. See IRC Section 704.

### Corporate Partners

Corporate partners that are nonresidents will be included on the Schedule Composite-COR and have amounts withheld on the distributive share of income. Schedule IN K-1 will be used to report the withholding paid into the corporate account. The partner must claim credit for the withholding amount by enclosing Schedule IN K-1 with one of the following:

- Form FIT-20;
- Form IT-20;
- Form IT-20S;
- Form IT-20NP;
- Form IT-41; or
- Form IT-65.

All distributions are fully taxable for Indiana adjusted gross income tax purposes. Taxable partnership income (loss) includes pro rata Indiana modifications. However, losses may not exceed the limits imposed by IRC Section 704.

Corporate partners doing business within and outside Indiana must also determine taxable AGI from Indiana sources through the use of the allocation and apportionment provisions contained in IC 6-3-2-2(b)-(h). These generally follow the Uniform Division of Income for Tax Purposes Act. Thus, a multistate corporation must first determine what part of its AGI, which includes all partnership income, constitutes business income and what part is nonbusiness income. The relationship between the corporate partner and the partnership controls whether the income is classified as income derived from a unitary partnership or derived from a nonunitary partnership.

Use the worksheet on page 12 for Attributing Partnership Income for Unitary Corporate Partners to compute the portion of partnership income subject to tax under the Adjusted Gross Income Tax Act.

### Basis of Partner's Interest in Partnership

For Indiana income tax purposes, the basis of the partnership interest is generally the same as its basis for federal income tax purposes. Adjustments to income and loss under the Indiana Adjusted Gross Income Tax Act (for the addback of income taxes and the deduction from income for U.S. government obligations) are limited to current reporting. However, they may also affect the basis of the partner's interest.

### Indiana Partnership Income for Individuals

Examples: Taxpayer A is a resident of Indiana, and Taxpayer B is a nonresident of Indiana. Each has a 50% interest in ABC Company, an Indiana partnership doing business both within Indiana and outside Indiana.

ABC Company has income from operations of \$530,000 and expenses of \$500,000. Of these expenses, \$35,000 is an expense for state income tax. Taxpayers A and B each received a guaranteed payment of \$10,000.

### Computations for ABC Company for a Taxable Period:

Income from operations	\$530,000
Expenses	- 500,000
Add-back modifications	<u>+ 35,000</u>
Partnership income	\$65,000

Using the single-factor apportionment formula for periods beginning after Dec. 31, 2010, under IC 6-3-2-2(b), ABC Company determines its apportionment percentage as follows:

Indiana sales/receipts	5000.00
Divided by everywhere sales/receipts	<u>/41667.00</u>
Equals	.1200
Multiplied by 100	<u>x 100</u>
Equals Indiana apportionment percentage	12.00%

### Computations for Taxpayers A and B:

Taxpayer A, as a resident of Indiana, must report his own entire share of partnership income to Indiana regardless of whether the partnership apportions its income. As a general rule, if Taxpayer A pays tax to another state (on a portion of partnership income), he can take a credit on his individual return.

Indiana adjusted partnership income for Taxpayer A is computed as follows:

Guaranteed payment	\$10,000
Distributive share (50% x \$65,000)	<u>+ 32,500</u>
Indiana adjusted distributive share of income	\$42,500

Taxpayer B, as a nonresident of Indiana, reports only her own share of partnership income and guaranteed payment apportioned to Indiana. As a general rule, if Taxpayer B is required to pay tax to another state on a portion of her income from ABC Company, she cannot take a credit on her Indiana return but must claim it from her state of residence.

Indiana adjusted partnership income for Taxpayer B is computed as follows:

Guaranteed payment	\$10,000
Distributive share (50% x 65,000)	<u>+ 32,500</u>
Total partnership share of income	\$42,500
Multiply by apportionment percentage	<u>x 12%</u>
Apportioned Indiana distributive share of income	\$5,100

