

# INDIANA

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## IT-65

Partnership Return Booklet



Indiana Department of Revenue  
**2021 IT-65 Indiana Partnership Return Booklet**

### **INTIME e-Services Portal Available**

INTIME, DOR's e-services tax portal available at [intime.dor.in.gov](http://intime.dor.in.gov), provides the following functionalities for IT-65 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

We strongly encourage all taxpayers to make payments and file returns electronically whenever possible. INTIME allows customers to make estimated payments electronically with just a few clicks.

## **What's New for 2021**

### **References to the Internal Revenue Code**

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 March 31, 2021. For a complete summary of new legislation regarding taxation, please see the *Synopsis of 2021 Legislation Affecting the Indiana Department of Revenue* at [www.in.gov/dor/files/reference/legislative-synopsis-2021.pdf](http://www.in.gov/dor/files/reference/legislative-synopsis-2021.pdf).

### **Add-Backs**

- The portion of wagering taxes required to be added back as a tax based on or measured by income is being phased out. See instructions.
- A **new add-back** (149) is available for the add-back of certain meal expenses and for which a deduction is allowable in determining federal adjusted gross income. See page 9 for more information.

### **Credits**

- A **new credit** (865) is available for EDGE credits based on non-resident employees working in Indiana. See page 18 for more information.
- **School Scholarship Tax Credit Contribution Ceiling Increased.** The total of allowable net contributions to the program has increased to \$17.5 million for the program's fiscal year of July 1, 2021 through June 30, 2022.

### **Deductions**

- A **new deduction** (634) is available to deduct certain expenses for which a deduction is not permitted for federal income tax purposes because an employer claimed a COVID-related employee retention credit. See page 9 for more information.
- A **new deduction** (636) is available to deduct interest and other amounts included in federal gross income and received from bonds issued by Indiana government and quasi-government entities. See page 9 for more information.

### **Schedule IN K-1**

Several fields have been added to Schedule IN K-1; line 5 has been revised.

### **Schedule IN-EL**

A new Schedule IN-EL has been created for partnerships that elect to be taxed at the partnership level. In addition, a new Line 6c has been added to report amounts due from Schedule IN-EL.

### **Schedule Composite/Composite-COR**

A new column has been added to take into account various exceptions to standard withholding.

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## **Annual Public Hearing**

In accordance with the Indiana Taxpayer Bill of Rights, the Indiana Department of Revenue will conduct an annual public hearing in Indianapolis in June of 2022. Event details will be listed at [www.in.gov/dor/news-media-and-publications/dor-public-events/annual-public-hearings/](http://www.in.gov/dor/news-media-and-publications/dor-public-events/annual-public-hearings/). Please come and share feedback or comments about how DOR 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 DOR. 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 DOR.

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” means an entity treated as a partnership for federal income tax purposes. 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, 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, 2020 to June 30, 2021), 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%.

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## General Filing Instructions

### Liability of the Partnership

Partnerships as entities are not subject to income taxes unless the partnership makes a special election to be subject to income tax. 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 or Schedule E-7 on page 15.

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 DOR 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 or race team members is based on duty days performed in Indiana. Refer to Income Tax Information Bulletin #88 ([www.in.gov/dor/files/reference/ib88.pdf](http://www.in.gov/dor/files/reference/ib88.pdf)) or Income Tax Information Bulletin #88B ([www.in.gov/dor/files/ib88b.pdf](http://www.in.gov/dor/files/ib88b.pdf)). 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. DOR assigns an Indiana Taxpayer Identification Number (TID).

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

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

Payments of amounts withheld must be remitted to DOR 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. All entities are required to remit withholding statements electronically by using either a third-party vendor or via INTIME, DOR's e-services portal at [intime.dor.in.gov](http://intime.dor.in.gov).

### 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 DOR. 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 unless the partnership provides an exception code on the Schedule Composite or Schedule Composite-COR. DOR has streamlined the procedure for making withholding payments for nonresidents.

See page 3 for information about using INTIME, DOR's e-service portal at [intime.dor.in.gov](http://intime.dor.in.gov), for making withholding remittances. Credit for the withholding/composite tax will be reflected on Schedule IN K-1 for each partner. For further information, consult Income Tax Information Bulletin #72, which is available at [www.in.gov/dor/files/reference/ib72.pdf](http://www.in.gov/dor/files/reference/ib72.pdf).

**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-40PNR, page 2, at [www.in.gov/dor/tax-forms/2021-individual-income-tax-forms/](http://www.in.gov/dor/tax-forms/2021-individual-income-tax-forms/) 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 4 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 visit INTIME at [intime.dor.in.gov](http://intime.dor.in.gov). 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/files/reference/ib72.pdf](http://www.in.gov/dor/files/reference/ib72.pdf) 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. DOR 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 DOR 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 DOR 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 an Indiana extension of time to file via INTIME, DOR's e-service portal at [intime.dor.in.gov](http://intime.dor.in.gov), or by submitting a request in 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

The partnership must file an amended Indiana return 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 Indiana tax 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.

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

Partners generally have 90 days from the date the partnership is required to file amended returns after the deadline for the partnership. Tiered partners and indirect partners have special timetables. For further information, see Income Tax Information Bulletin #72 available at [www.in.gov/dor/files/reference/ib72.pdf](http://www.in.gov/dor/files/reference/ib72.pdf).

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## Instructions for Completing Form IT-65

### Filing Period and Identification

Use Form IT-65 to file:

- A 2021 partnership return for a tax year ending on Dec. 31, 2021;
- A short tax year beginning in 2021; or
- A fiscal year beginning in 2021 and ending in 2022.

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 employer identification number (FEIN) 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
- Enter the postal code in the box labeled ZIP Code; and
- Enter the 2-digit country 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/tax-forms/business-tax-forms/](http://www.in.gov/dor/tax-forms/business-tax-forms/) 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 this box if you are a partnership that is electing or has elected to be taxed at the partnership level. This box should only be checked on an amended return. You must have an election on file with DOR or provide a valid election with the amended return in order to check this box.
- 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.

**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 2d.** 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 \$12,800 catch-up add-back on the 2023 state tax return.

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

#### Conformity Add-Back

Before this publication was finalized Indiana had not conformed to any changes to the Internal Revenue Code (IRC) that may have become law after March 31, 2021. Therefore, the IRC used to figure Indiana income may not wind up being the same as the IRC used to figure federal income.

This add-back is specific to these annual current year conformity issues. If uncertainty exists as to whether or not Indiana will adopt some or all of the federal legislation passed after March 31, 2021, that acts to modify federal AGI, you may add back those items as an “other” add-back. In the event those items are adopted, an amended return should be filed to recoup the add-back(s).

#### Conformity Add-Back – Positive Entry (3-digit code: 120)

This add-back is only for current year conformity issues. Conformity issues for preceding tax years must be addressed on the add-back line specific to the item in question.

If the state legislature does not conform to federal code changes enacted after March 31, 2021, you may have to amend your return at a later date to reflect any differences between Indiana and federal law. You may wish to periodically check DOR’s homepage at [www.in.gov/dor](http://www.in.gov/dor) for updates.

### **Conformity Add-Back – Negative Entry (3-digit code: 147)**

This add-back generally is based on conformity issues arising from a previous year. However, in rare cases this can arise from conformity issues arising in the current year where the IRC treats an item as taxable or nondeductible that was previously exempt or deductible.

One example that occurs periodically is when there is a federal disaster. Congress will amend the IRC to permit IRA withdrawals to be included over three years (e.g., a 2021 withdrawal would be included one-third in 2021, one-third in 2022, and one-third in 2023). If Indiana decoupled from the IRC, the whole amount would be included in 2021, none in 2022, and none in 2023. The Code 120 would be for the two-thirds add-back in 2021, the Code 147 would be for the one-third deduction in 2022 and 2023. These have occurred from time to time but (1) did not affect Indiana because of the specific disaster and (2) the IRC conformity date was updated in time.

### **Tax Add-Back (3-digit code: 100)**

Add back all state taxes based on or measured by income, levied by any state, which were deducted on the federal tax return.

Wagering taxes fall within this category to be added back. However, the amount to be added back is being phased out. See the following instructions.

- **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). 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 2021. 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 \$625,000.

**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 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 as if the bonus depreciation had not been permitted until the property is disposed or fully depreciated for Indiana purposes. Enclose a statement to explain the adjustment. Income Tax

Information Bulletin #118 ([www.in.gov/dor/files/reference/ib118.pdf](http://www.in.gov/dor/files/reference/ib118.pdf)) explains the required modification on the allowance of depreciation for state tax purposes.

**Note.** Special rules may apply if the bonus depreciation is taken against property acquired in a like-kind exchange. See Income Tax Information Bulletin #118 at [www.in.gov/dor/files/reference/ib118.pdf](http://www.in.gov/dor/files/reference/ib118.pdf) 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 (adjusted for inflation).

Indiana has adopted an expensing cap of \$25,000. 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 (adjusted for inflation) 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 or fully depreciated for Indiana purposes.

**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.

**Note.** Special rules may apply if the Section 179 expensing is taken against property acquired in a like-kind exchange. See Income Tax Information Bulletin #118 at [www.in.gov/dor/files/reference/ib118.pdf](http://www.in.gov/dor/files/reference/ib118.pdf) 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/files/reference/ib19.pdf](http://www.in.gov/dor/files/reference/ib19.pdf) for a list of eligible items.

### **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 Income Tax Information Bulletin #19 available at [www.in.gov/dor/files/reference/ib19.pdf](http://www.in.gov/dor/files/reference/ib19.pdf).



**Federal Repatriated Dividend Deduction Add-Back (3-digit code: 139)**

Add back the deduction for income under IRC Section 965 reported to partners. Report the add-back to the partners using code 139 on Schedule IN K-1. For nonresident individuals, include only the apportioned amount of the add-back.

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

IRC Section 163(j) limits the federal interest deduction for most business interest to a portion of adjusted taxable income plus business interest income. 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 interest previously deducted for Indiana and allowable for federal purposes in the current taxable year. For partners, the partner will be required to compute any add-back at the partner level. For purposes of reporting this modification and determining composite tax, compute any add-back as if the partnership is the only source of the partner's interest income/deduction.

**Meal Deduction Add-Back (3-digit code: 149)**

If you:

- claimed a deduction for meal expenses with regard to food and beverages provided by a restaurant in computing your federal adjusted gross income; AND
- the deduction would have been limited to 50% of the meal expenses if the expenses had been incurred before Jan. 1, 2021, add back the amount deducted for federal purposes in excess of 50% of the food or beverage expenses.

Do not add back any amount for which an exception to the 50% limitation was in effect for amounts paid before Jan. 1, 2021.

*Example:* Creosote Wafer, LLC incurs \$2,000 in meal expenses during 2021 and deducts the entire \$2,000 in computing Creosote Wafer's 2021 federal adjusted gross income. The meal expenses do not qualify for a federal exception from the 50% limitation under pre-2021 IRC § 274. Creosote Wafer, LLC is required to add back \$1,000, and report the add-back on its partners' Schedule IN K-1.

**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 Part 4, lines 5-7 of the IN K-1.

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

**COVID-related Employee Retention Credit Disallowed Expenses Deduction (3-digit code: 634)**

If you had a deduction that was disallowed for federal purposes because an employer claimed a federal COVID-related employee retention credit, deduct the amount that was:

- disallowed for federal purposes; and
- that otherwise would have been allowable in determining Indiana adjusted gross income.

Do not deduct any amounts for amounts disallowed for non-COVID related employee retention credits such as disaster-related employee retention credits.

**Indiana-only Tax-exempt Bonds Deduction (3-digit code: 636)**

If you had interest from a bond issued by or in the name of certain Indiana government subdivisions or entities or amounts received upon redemption or maturity of the bond, deduct any interest or other income included in federal gross income. Do not deduct any bond interest that is excluded from federal gross income. In addition, if you sell the bond, do not deduct any amounts for which the bond is sold in excess of your purchase price. See IC 6-8-5-1 for further information regarding the deduction.

<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	

**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 Schedule E or Schedule E-7. Do not enter 100%.

Before continuing to lines 5 through 14, complete Schedule IN K-1 for each partner.

### 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, visit [www.in.gov/dor/](http://www.in.gov/dor/) or call (317) 232-2240.

**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 15G of Schedule Composite (column D plus column F). Enclose Schedule Composite.

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

**Line 6c.** Enter the total liability from Schedule IN-EL, Line 15.

**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.

**Note.** Certain Motorsports Investment District Income (prize winnings) and IN state and Marion County withholding taxes may be reported on Form IN-MSID and/or Form IN-MSID-A.

If the partnership allocates any of those prize winnings and withholding amounts to the ultimate recipients (e.g., corporation, partnership, individual, etc.), the partnership must issue form IN-MSID-A to the recipients to reflect the amounts passed through (winnings and withholdings). If you did not allocate amounts to other ultimate recipients, you should issue an IN-MSID-A to yourself in order to claim the credit for these amounts.

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.

See Departmental Notice #3 available at [www.in.gov/dor/files/reference/dn03.pdf](http://www.in.gov/dor/files/reference/dn03.pdf) for the current interest rate or contact DOR by calling (317) 232-2240.

**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. 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 through 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.

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## Certification of Signatures and Authorization Section

Sign, date, and print the name on the return. If a paid preparer completes the return, authorize DOR 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, DOR contacts a taxpayer if we have any questions or concerns about the tax return. If the taxpayer wants DOR 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, DOR is authorized to contact the personal representative, instead of the taxpayer, about this tax return. After the return is filed, DOR will communicate primarily with the designated personal representative for any matters concerning this return.

**Note:** The authorization for DOR 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 DOR 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.

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## 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

## 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:	A. Partnership Income All Sources	B. Distributions from Partnerships/ Estates/Trusts Everywhere	C. Distributions Attributed to Indiana
<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 lines 2a through 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	

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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.

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.

### 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 employer identification number (FEIN) 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 4a and b

If the partner is a disregarded entity (DE), enter the partner's name and FEIN, and indicate what kind of partner the entity is (see instructions for federal Schedule K-1 at [apps.irs.gov/app/picklist/list/formsPublications.html](https://apps.irs.gov/app/picklist/list/formsPublications.html)).

**Line 5.** List the type of entity of the partner for whom you are issuing the Schedule IN K-1.

**Line 6.** Enter the partner's state of residence or commercial domicile.

**Line 7.** If partner was an Indiana nonresident individual on Jan. 1, 2021, and worked in Indiana as of Jan. 1, 2021, then enter the individual's 2-digit county of employment in this box. You may get the 2-digit code number from Departmental Notice #1 at [www.in.gov/dor/files/reference/dn01.pdf](https://www.in.gov/dor/files/reference/dn01.pdf)

**Line 8.** Enter the name of the entity that remitted actual payment of the withholding.

**Line 9.** Enter the FEIN of the paying entity. Note: Do not obscure any digits when entering the FEIN.

**Line 10.** Enter the amount of distributive share. This amount should include all Indiana add-backs and deductions.

**Line 11.** 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 12. Indiana adjusted gross income subject to county tax.

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.

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.

**Line 13.** 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 employer identification number from the entity that the credit was awarded to. If the credit is passed through from another entity enter the FEIN from Schedule IN K-1;
- The credit's certification year;
- For credit codes 820, 835, 839, 849, 857, 858, 860, 863, 865, 1820, 1835, 1849, 1858, 1860, 1863, and 1865, 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 17. 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/files/reference/ib59.pdf](https://www.in.gov/dor/files/reference/ib59.pdf).

**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, 863, 865, 1820, 1849, 1858, 1860, 1863, and 1865 will be reported on line 13.

### Part 3 – Distributive Share Amount

Complete lines 1 through 13b 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 or Schedule E-7. See the instructions beginning in the next column. Enter the apportioned amounts on lines 1 through 13b. If any entries on lines 2 – 11 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, for individual partners, 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 percentage reported on line 4 of Form IT-65. This can also be found on Schedule E or Schedule E-7. 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 1-7.** 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 8.** Enter the total distributive share of modifications. Add lines 1 through 7.

**Line 9.** Add Part 3, line 14, to Part 4, line 8. For nonresident partners/shareholders, carry this amount to Schedule Composite, Column C, or on Schedule Composite-COR, Column B.

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

Complete the apportionment of income schedule whenever the partnership:

- Has income derived from sources both within and outside Indiana; and
- Has any nonresident or corporate 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. The apportionment factor may also determine the Indiana net income that passes to partners subject to corporate income tax and financial institutions tax.

**Note:** Interstate transportation companies should consult Schedule E-7 for details concerning apportionment of income. This schedule is available at [www.in.gov/dor/tax-forms/2021-corporatepartnership-income-tax-forms/](http://www.in.gov/dor/tax-forms/2021-corporatepartnership-income-tax-forms/).

### 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.

- 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. 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 Multistate Tax Commission 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 or Schedule E-7 with Form IT-65.

The completed Schedule E or Schedule E-7 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-40PNR, page 2, at [www.in.gov/dor/tax-forms/2021-individual-income-tax-forms/](http://www.in.gov/dor/tax-forms/2021-individual-income-tax-forms/) 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.** If a partner has an exception where the partner may not be subject to tax or may be subject to a reduced tax, enter the exception code applicable to that partner. If no exception code applies to a partner, leave the column blank. If an invalid code is entered, this will be treated as a blank code. If a code is entered into this column, compute the values for state and local income tax based on the proper amount of tax due rather than based on the default computation.

- Code 01 - Approved alternative arrangement. This is available only if DOR has approved an alternative withholding arrangement with the corporation responsible for paying the tax. You must maintain DOR's approval of the arrangement with your records as DOR can require you to provide it at a later date.
- Code 02 - Credit used to offset composite tax. If the partner would have been entitled to claim a nonrefundable tax credit that flowed through from the partnership to reduce the partner's income tax liability, the partnership may reduce the amount of composite tax by the partner's share of such credit. Do not reduce the tax by more than the partner's share of any credits that properly passed through to the partner. Also, you may only reduce the tax by the amount of current year credit unless specifically permitted. Finally, you may not use this code to reduce composite tax for credits that did not flow through from the partnership.
- Code 03 - Employee Stock Ownership Plan Enter this code if the partner is an employee stock option plan (ESOP).
- Code 04 - Income offset by previously disallowed deductions. If:
  - o a partner is determined to have zero basis on their share of their interest in the partnership, and
  - o the partner has deductions that were disallowed because the partner had zero basis,the share of income subject to tax can be reduced by the newly-allowed Indiana deductions and the tax recomputed after the newly-allowed deductions.
- Code 05 - Insurance Company not subject to AGIT or FIT. If the partner is an insurance company that is not subject to AGIT or FIT for the year in question, use this code. Use this code only if the insurance company has filed a timely election to be subject to Indiana gross premiums tax.
- Code 06 - Nonprofit Entity. If the partner if an entity that is a nonprofit corporation or a retirement plan that is subject to Indiana adjusted gross income tax or financial institutions tax on only its unrelated business income AND the partnership knows



that the income from the partnership would not be considered unrelated business income to the partner, enter this code. Do not enter this code if the partnership lacks actual knowledge of the character of the income in the partner's hands or if the partnership knows that the income is unrelated business income to the partner.

- Code 07 - Real Estate Investment Trust. Enter this code if the partner is a real estate investment trust (REIT). However, do not enter this code if the REIT is a captive REIT required to add back its dividends paid.
- Code 08 - Real Estate Mortgage Investment Conduit. Enter this code if the partner is a real estate mortgage investment conduit.
- Code 09 - Treaty-based exclusion. If a partner is subject to a treaty-based exception from federal income tax, the scope of the treaty includes the income derived from the corporation, and the corporation has knowledge of the partner's exemption, enter this code for the partner.

#### Column B.

**Schedule Composite** – Enter the 2-character state of residency for each nonresident listed.

**Schedule Composite-COR** - Enter the Indiana adjusted gross income from Schedule IN K-1, Part 4, line 9.

#### Column C.

**Schedule Composite:** Enter the Indiana adjusted gross income from Schedule IN K-1, Part 4, line 9.

**Schedule Composite-COR** - Multiply the amount in Column B by the Indiana corporate tax rate (see page 4).

**Column D.** State Tax. Multiply the adjusted gross income by .0323.

**Column E.** Enter the income subject to county tax from IN K-1, Part 1, line 12.

**Column F.** Multiply the amount in Column E by the county tax rate associated with the county reported on IN K-1, line 7. This rate is listed on Schedule CT-40PNR, which is located at [www.in.gov/dor/tax-forms/2021-individual-income-tax-forms/](http://www.in.gov/dor/tax-forms/2021-individual-income-tax-forms/).

Notwithstanding any other requirement, a nonresident individual who is subject to Indiana county income tax on Schedule Composite (Column F) 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 x 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.

Get Income Tax Information Bulletin #72 at [www.in.gov/dor/files/reference/ib72.pdf](http://www.in.gov/dor/files/reference/ib72.pdf) for additional information.

**Column G.** Add the amounts from Columns D and F.

Enter the amount from **Schedule Composite**, line 15G, on Form IT-65, line 6a. If completing **Schedule Composite-COR**, enter the amount from line 29C on Form IT-65, line 6b.

**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 DOR.

#### 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 employee 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:

- Alternative Vehicle Fuel Manufacturer Credit (prior to repeal)
- 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 Income Tax Information Bulletin #59 at [www.in.gov/dor/files/reference/ib59.pdf](http://www.in.gov/dor/files/reference/ib59.pdf) or 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.* 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 for up to nine years; 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 nine years
- Community revitalization enhancement district credit

For more information about Indiana tax credits, see Income Tax Information Bulletin #59 available at [www.in.gov/dor/files/reference/ib59.pdf](http://www.in.gov/dor/files/reference/ib59.pdf).

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/files/reference/ib59.pdf](http://www.in.gov/dor/files/reference/ib59.pdf) 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.

### **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. DOR 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 [www.iedc.in.gov](http://www.iedc.in.gov) for more information about this credit.

### **Economic Development for a Growing Economy (EDGE) Credit 839**

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 857**

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.

### **Economic Development for a Growing Economy - Nonresident Employees (EDGE-NR) 865**

This credit is for incremental state income tax amounts that would have been withheld on employees from reciprocal states if those employees had been subject to Indiana state tax withholding. Owners of pass-through entities such as S corporations, partnerships, limited liability companies, etc., are eligible for this credit. Unlike the EDGE and EDGE-R credits, the EDGE-NR credit is a non-refundable credit.

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.

The approved credit must be reported on Schedule IN-OCC, found at [www.in.gov/dor/tax-forms/2021-individual-income-tax-forms/](http://www.in.gov/dor/tax-forms/2021-individual-income-tax-forms/). Make sure to enclose this schedule with your tax filing. If you are claiming this credit as an owner of a pass-through entity such as S corporations, partnerships, limited liability companies, etc., make sure to keep Schedule IN K-1 with your records as DOR can require you to provide this 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 with Form IT-65 return to claim this credit.

See Indiana Schedule EZ Parts 1, 2, and 3 available at [www.in.gov/dor/tax-forms/enterprise-zone-forms/](http://www.in.gov/dor/tax-forms/enterprise-zone-forms/) 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 before Jan. 1, 2018, for use in an active Indiana enterprise zone.

See Income Tax Information Bulletin #66 available at [www.in.gov/dor/files/reference/ib66.pdf](http://www.in.gov/dor/files/reference/ib66.pdf) and Indiana Schedule LIC available at [www.in.gov/dor/tax-forms/enterprise-zone-forms/.htm](http://www.in.gov/dor/tax-forms/enterprise-zone-forms/.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

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.

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/files/reference/ib97.pdf](http://www.in.gov/dor/files/reference/ib97.pdf).

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 DOR 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 Income Tax Information Bulletin #95 available at [www.in.gov/dor/files/reference/ib95.pdf](http://www.in.gov/dor/files/reference/ib95.pdf).

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/tax-forms/2021-corporatepartnership-income-tax-forms/](http://www.in.gov/dor/tax-forms/2021-corporatepartnership-income-tax-forms/), must be completed and enclosed with the return to claim this credit; otherwise, the credit will be denied. For more information, visit DOR'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 usable 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 DOR 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 S corporations, partnerships, limited liability companies, etc.

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

- an application approved by the Indiana Economic Development Corporation (IEDC) before Jan. 1, 2020; or
- an agreement entered into by the taxpayer and IEDC before Jan. 1, 2021.

**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 [www.iedc.in.gov](http://www.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/tax-forms/2021-corporatepartnership-income-tax-forms/](http://www.in.gov/dor/tax-forms/2021-corporatepartnership-income-tax-forms/). 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 DOR 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.

### **Redevelopment Tax Credit 863**

You may be eligible for a credit if you make a qualified investment for the redevelopment or rehabilitation of real property located within a qualified redevelopment site.

This credit is administered by the Indiana Economic Development Corporation (IEDC), One North Capitol, Suite 700, Indianapolis, IN, 46204. Visit the IEDC website at [www.iedc.in.gov](http://www.iedc.in.gov) or call (317) 232-8800 for additional information.

The approved credit must be reported on Schedule IN-OCC, found at [www.in.gov/dor/tax-forms/2021-individual-income-tax-forms/](http://www.in.gov/dor/tax-forms/2021-individual-income-tax-forms/). Make sure to enclose this schedule with your tax filing.

### **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 \$17.5 million in credits per state fiscal year of July 1, 2021 through June 30, 2022.

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

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

A taxpayer that provides qualified investment capital to a qualified Indiana business may be eligible for this credit. 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, telephone number (317) 232-8827, or visit [www.iedc.in.gov](http://www.iedc.in.gov).

Beginning with the 2020 tax year, this credit must be reported on Schedule IN-OCC, found at [www.in.gov/dor/tax-forms/2021-corporatepartnership-income-tax-forms/](http://www.in.gov/dor/tax-forms/2021-corporatepartnership-income-tax-forms/). Make sure to enclose this schedule with your tax filing. If you are claiming this credit as an owner of a pass-through entity, such as an S corporation, partnership, limited liability company, etc., make sure to keep Schedule IN K-1 with your records as DOR can require you to provide this information.

Also, see the **Restriction for Certain Tax Credits - Limited to One per Project** below.

**New reporting requirement.** Enclose Schedule IN-OCC to claim this credit; 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.

### **Schedule IN-EL**

If you are a partnership that has elected to be taxed at the partnership level, please include Schedule IN-EL. Specific instructions for completing Schedule IN-EL are found with the schedule.

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## **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 or short 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 or Schedule E-7, 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.

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## **Additional Information**

### **Utility Receipts Tax**

A Utility Receipts Tax is imposed on 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:

- 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 General Tax Information Bulletin #201 at [www.in.gov/dor/files/reference/gb201.pdf](http://www.in.gov/dor/files/reference/gb201.pdf).

### **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.

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 DOR to collect the utility services use tax on the taxpayer's behalf, remit this tax on Form USU-103. For more information, see General Tax Information Bulletin #202 available at [www.in.gov/dor/files/reference/gb202.pdf](http://www.in.gov/dor/files/reference/gb202.pdf).

### **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. DOR 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 DOR online using INBiz ([www.inbiz.in.gov](http://www.inbiz.in.gov)); or
- The second option is to visit either DOR's downtown Indianapolis office or one of the district offices located throughout the state to use DOR'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 INTIME, DOR's e-services portal at [intime.dor.in.gov](http://intime.dor.in.gov), or a third party vendor; they can also use INTIME to file and remit sales tax.

## 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.

## 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 is used to report withholding paid by the partnership. 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;
  - o no county tax was reported\* on Schedule Composite, Column F; and
  - o no other Indiana income is reported on an individual income tax return. If any is, income from the partnership also must be reported on that return.

\*If county tax was reported, 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 or 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.

## 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. The guaranteed payments are included in the expenses of \$500,000.

*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

