



**DEPARTMENTAL NOTICE #42**  
**AUGUST 2016**  
**Effective Date: January 1, 2017**

**SUBJECT: Change in Nonresident Tax Rates for Local Income Tax on or After January 1, 2017.**

**REFERENCE: IC 6-3.5; IC 6-3.6**

**DISCLAIMER:** Departmental notices are intended to provide nontechnical assistance to the general public. Every attempt is made to provide information that is consistent with the appropriate statutes, rules, and court decisions. Any information that is not consistent with the law, regulations, or court decisions is not binding on either the department or the taxpayer. Therefore, the information provided herein should serve only as a foundation for further investigation and study of the current law and procedures related to the subject matter covered herein. This document does not meet the definition of a “statement” required to be published in the Indiana Register under IC 4-22-2-7.

**SUMMARY**

This notice explains that the local (county) income tax rates imposed on nonresidents on or after January 1, 2017, will be the same rate imposed on residents and clarifies associated withholding changes.

HEA 1485-2015 combined county adjusted gross income tax, county option income tax, and county economic development income taxes into one combined local income tax. The new local income tax goes into effect January 1, 2017.

The enactment of the local income tax will not affect the resident tax rates in effect on May 1, 2016. In other words, the rates in effect on May 1, 2016, will continue to be in effect on January 1, 2017, unless the county acts to change its county income tax rates between July 1, 2016, and October 31, 2016.

However, IC 6-3.6-4-1 imposes the applicable local income tax rate on local taxpayers, as opposed to different rates for county resident and nonresident taxpayers applicable under the county adjusted gross income tax and county option income tax. The definition of a local taxpayer is:

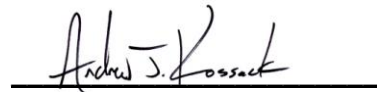
- (1) An individual who resides in a county on January 1 of the tax year (“resident taxpayer”),  
or

- (2) An individual who does not reside in a county that has imposed a local income tax on January 1 of the tax year, but whose principal place of business or employment is in a county that has imposed a local income tax (“nonresident taxpayer”).

This statutory definition is unchanged from the previous county income taxes imposed. No changes based on residency are required solely based on the imposition of the local income tax.

IC 6-3.6-4-1 does not provide for different local income tax rates for resident and nonresident taxpayers. Thus, if a taxpayer is subject to local income tax in a county, an employer must withhold the tax at the same rate for all individuals subject to that county’s tax rate. In addition, a person subject to local income tax for a county is subject to tax at the same rate, regardless of whether the individual is a resident or nonresident taxpayer.

Effective January 1, 2017, the Indiana Department of Revenue will publish one local income tax rate in Departmental Notice #1 and in its return instructions for tax years starting in 2017. That rate will be applicable to both resident and nonresident taxpayers. Any changes to local income tax rates for withholding will be published by the department in Departmental Notice #1, which is published on the department’s website twice a year and is effective January 1 and October 1 each year. Other than listing one rate as opposed to two, no changes in the publication dates or location of publication on the department’s website will occur.



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Andrew Kossack  
Commissioner