STATE of INDIANA

DEPARTMENT OF REVENUE

INDIANA GOVERNMENT CENTER NORTH
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INDIANAPOLIS, IN 46204-2253

Fact Sheet: County Tax

April 2013

Each of Indiana's 92 county councils/income tax councils can choose to adopt an ordinance that imposes a local option income tax (LOIT), commonly referred to as "county tax." This tax is used to supplement certain projects that normally are paid for with property taxes. Once adopted, the county tax remains in effect unless and until the council opts to rescind the tax. The council can also choose to increase or decrease the county tax after it is adopted.

An individual is subject to Indiana county tax if he lived and/or worked in an Indiana county as of January 1 of the taxable year. If a county imposes, increases, decreases or rescinds a county tax during the year, an individual who resided in and/or worked in that county as of January 1 of the year is subject to the tax and any changes made during the year.

Currently, three county tax types are available. Each county council chooses the type of tax to impose:

County Adjusted Gross income Tax (CAGIT)   IC 6-3.5-1.1

Funds collected are used to pay certain costs of

- facilities and buildings, including county courthouse
- operating a jail and juvenile detention center

The remaining funds are treated as though they were property taxes.

County Option Income Tax (COIT)   IC 6-3.5-6

Funds collected are used to

- provide a homestead credit
- fund the operation of
  - a public communications system and computer facilities district
  - a public transportation corporation
  - a public library, etc.

County Economic Development Income Tax (CEDIT)   IC 6-3.5-7

Funds collected are used to

- pay loans/retire bonds/pay leases used for economic development and/or capital projects
- provide certain homestead credits
- foster economic development, new technology, industrial and commercial growth, diversification of industry and commerce, etc.
- establish a regional venture capital fund

County tax combination options
A county council can adopt a combination of two county taxes. This gives the county additional options as to how the funds are spent. Here are the possibilities:

- A county may adopt a combination of CAGIT and CEDIT.
- A county may adopt a combination of COIT and CEDIT.
- No county may adopt a combination of CAGIT and COIT.

County tax rates
The department annually posts the combined county tax rates for withholding purposes and county income tax calculation purposes.

How is county tax collected/disbursed?

The individual's county tax is calculated on the state individual income tax return, collected by DOR and paid out to the counties. Because legislation requires the county tax to be based on the amount of adjusted gross income reported on the individual's Indiana income tax return, the department (as opposed to each county) is uniquely qualified to tax, collect and distribute this tax.

Who owes county tax?

An individual who lives or works in an Indiana county that has a county tax is subject to county tax.

What if an individual lives in one county but works in a different one? What tax rate is used?

County tax is figured at either the resident rate OR the nonresident tax rate (never both for the same tax year), depending on an individual's circumstances. It is based on where the individual lives and works as of a January 1 lock-in date—county tax is first due to the January 1 county of residence.

Here are the basic guidelines:

If on January 1 of the tax year an individual lives in a county that has a county tax, he will owe tax. It will be figured by applying that county's resident rate to the individual's taxable income for the entire year.

Example. Tom's January 1 county of residence has a tax. Tom owes tax to that county at the resident rate.

If on January 1 of the tax year an individual lives in a county that does not have a tax (currently that would be Lake County or out-of-state) but works in a county that does have a tax, she will owe tax on her principal employment income to that county at that county's nonresident rate.

Example. Susan is an Illinois resident who works in an Indiana county that has a tax. She owes county tax at the nonresident rate based on her Indiana-source wage income.

Special Circumstance *(also see "What happens the first year a county imposes a county tax?")*

> *What if an individual lives in a county that has a tax and worked in a county that did not have a tax on January 1 of the year but which adopted one during the year?*
>
> Tax is due to the county where the individual lived on January 1 regardless of where he worked. No tax will be due to the county where he worked.

What if an individual lives in a county that did not have a tax on January 1 of the year but which adopted one during the year, yet worked in a county that has a tax?

Tax will be due to the county where the individual lived even if the county did not adopt the tax until after January 1. This is because the adoption of the tax is retroactive to January 1. No tax will be due to the county where he worked.

Example. Steve's county of residence imposed a county tax for the first time this year. During the year he worked in an adjacent Indiana county that has a tax, and tax was withheld for that county. Because a county tax is deemed to be in effect the entire year for the first year it is adopted, he will owe tax to his county of residence, NOT to the county where he worked. Steve will claim the amount withheld for the county where he worked as a county withholding credit on his income tax return. Note – His employer should begin withholding tax for the county where he lives.

Nonresidents and Indiana county tax

A nonresident who, on January 1 of the year, works in an Indiana county that has a tax, owes tax on the Indiana employment income. This is true even if the county imposes a county tax for the first time during the year. The tax will be imposed at a reduced rate (prorated) the first year.

What is county tax based on?

An individual who, on January 1 of the tax year,

- lives in an Indiana county that has a tax owes county tax based on his Indiana taxable income
- doesn't live in an Indiana county that has a tax, but who works in an Indiana county that has a tax, owes county tax based on his Indiana employment income

What happens the first year a county imposes a county tax?

The first year a county tax is adopted it is deemed to be in effect the entire year.

Example. County A adopts a new county tax during tax year 2013. The county tax will be considered to have been in effect for the entire year because the tax is assessed based on where the individual lives and works as of a January 1 lock-in date:

- Although an individual who lived in County A on Jan. 1, 2013, will owe tax to that county based on the individual's entire state taxable income, a reduced rate will be used the first year.
- An individual who did not live in a county that has a tax, but who worked in County A on Jan. 1, 2013, will owe tax to that county based on her employment income at a reduced rate for the first year.

To determine whether tax is owed, and at what rate, apply the following test:

As of January 1 of the tax year, did the individual live in a county that has a tax?

- If yes, then tax is owed to that county at the resident rate.
- If no, then as of January 1 of the tax year, did the individual work in a county that has a tax?
    - If yes, then tax is owed on employment income at the nonresident rate.
    - If no, then the individual owes no county tax for the year.

When calculating the county tax due for the tax year, a county tax rate will be prorated if a county tax has not been in effect for the entire year because

- the county council adopted a new county tax during the year; or
- the county tax rate was modified during the year.

Example. County A adopted a county income tax for the first time, effective October 1 of the tax year. The rate imposed is .012. Because it was in effect for three months of the year, 3/12 of the .012 rate, or .009, will be the effective rate for the initial year.