

2025 SENATE ENROLLED ACT 1: **LOCAL INCOME TAXES (LIT)**

Senate Enrolled Act (SEA) 1 brings sweeping changes to Indiana's property tax and local government finance systems. The legislation significantly alters how deductions and credits are applied, reshapes Local Income Tax (LIT) distributions, and places new limitations on the use of debt service levies. Aim is developing resources to help local officials navigate these changes, with focused guidance on deductions, credits, LIT, and debt service.

EXISTING LIT STRUCTURE PHASES OUT

- Starting in 2028, all existing LIT rates will expire and must be replaced with the new structure.
- All property tax relief rates, including levy freeze rates, will also expire.
- All cities and counties will be required to adopt a new LIT rate under the new LIT structure during the 2027 budget process.

NEW LIT STRUCTURE

- Raises the county-wide expenditure rate cap from 2.5% to 2.9% starting in 2028
 - 1.2% of the rate is reserved for county services
 - 0.4% of the rate is reserved for fire protection and EMS services
 - Distributed by a combination of population and service territory size to all units that provide fire or EMS services (including municipalities)
 - 0.2% of the rate is reserved for nonmunicipal taxing units (like conservancy districts, solid waste management districts, libraries etc.)
 - Distributed by population or to only those units that apply
 - 1.2% of the rate is reserved for general revenue for municipalities under 3,500 in population (distributed by population)
 - Distributed by population or to only those units that apply
 - The county may retain up to 75% of this rate for county services
 - Allows municipalities over 3,500 in population to adopt a LIT rate up to 1.2% for general purpose revenue.

ADOPTION PROCEDURES

- Provides a process for non-municipal units and towns under 3,500 to petition the county for LIT distribution and requires the county to distribute a rate for these services to those units that have applied if the county has adopted a rate for non-municipal units or municipalities under 3,500.
- Requires the LIT rates to be readopted each year during the normal budget process like property tax rates but rates default to zero if the adopting body fails to adopt the tax.
- Municipalities over 3,500 in population may adopt their own LIT rate without any input from the county council with the city or town council acting as the adopting body.
- Municipalities between 3,500 and 7,000 in population may opt into either the county-wide municipal services rate which is distributed by population or their own municipal rate that applies only to their citizens.