

Income/Franchise:

Indiana: New Law Includes Sourcing Rules for Defined Investment Partnerships and Revises Some PTET Provisions

H.B. 1427, signed by gov. 5/6/25. Recently enacted legislation:

URL: <https://iga.in.gov/legislative/2025/bills/house/1427/details>

1. Includes special sourcing rules for the adjusted gross income from defined “investment partnerships” that is distributed to nonresident partners (whether corporations, individuals, estates, or trusts), as well as
2. Allows eligible pass-through entities electing to pay Indiana’s entity-level state income tax (PTET) to claim a credit for taxes withheld or paid on the entity’s behalf and make elections to claim certain state tax liability credits. Specifically, for all taxable years beginning after December 31, 2025, the legislation provides that in the case of an investment partnership:
 - a. Any qualifying investment partnership income that is distributable to a nonresident partner must be allocated to the partner’s state of residence (in the case of an individual, estate, or trust) or commercial domicile (in the case of any corporation or other entity); and
 - b. Any qualifying investment partnership income that is distributable to a nonresident partner must be treated as business income and apportioned as if such income had been received directly by the partner if such income is from certain listed investment activity.

The bill explains that “qualifying investment partnership income” generally means the adjusted gross income from qualifying investment securities, excluding any income or loss from a partnership interest that, in the hands of the partnership, qualifies as a security. Under these new sourcing provisions, the legislation also notes that “in the case of a partner and a corporate partnership, a unitary relationship shall be determined without regard to the corporate partner’s percentage of ownership of the partnership.”

Pursuant to Indiana law allowing some pass-through entities to make an election to pay Indiana’s PTET [see S.B. 2 (2023), and previously issued Multistate Tax Alert for more details on this PTET], the newly signed legislation, retroactively to January 1, 2025, also:

URL: <https://iga.in.gov/legislative/2023/bills/senate/2>

URL: <https://www2.deloitte.com/content/dam/Deloitte/us/Documents/Tax/us-tax-multistate-tax-alert-indiana-enacts-pass-through-entity-tax-election.pdf>

1. Provides that an electing entity or pass-through entity may claim a credit for taxes withheld or paid on the entity’s behalf; and
2. Allows an electing entity to make elections to claim certain state tax liability credits and sets forth requirements that apply to these elections; this includes the credit available to an Indiana resident for taxes paid to another state.

Please contact us with any questions.

— Tom Engle (St. Louis)
Manager
Deloitte Tax LLP
tengle@deloitte.com

Joe Garrett (Birmingham)
Managing Director
Deloitte Tax LLP
jogarrett@deloitte.com

Olivia Chatani (Washington, DC)
Senior Manager
Deloitte Tax LLP
ochatani@deloitte.com

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