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Barnes & Thornburg: Major Changes to Expenditure Rate of LIT in SEA 1 (2025)

New law shifts control over the expenditure rate to counties, phases out existing rates and sets the stage for a uniform structure by 2028.

Indiana Governor Mike Braun signed Senate Enrolled Act 1 (SEA 1) into law last month, introducing a number of changes to the state's property tax and local income tax system. Most of these changes will take effect July 1, 2027, to enable the new rates to be effective January 1, 2028, subject to certain exceptions. Barnes & Thornburg LLP is closely reviewing the provisions of SEA 1 and will continue to provide additional guidance on how this new legislation affects our municipal clients. This alert summarizes the major changes to local income taxes (LIT) and provides a timeline of those changes:

Summary of Major Changes

Expiration of Existing Expenditure Rate: All expenditure LIT rates imposed in a county under IC 6-3.6-6 expire on December 31, 2027, unless the adopting body (the fiscal body of the county) adopts an ordinance to renew the expenditure tax rate beginning on January 1, 2028. The ordinance renewing the expenditure tax rate must be adopted by October 1, 2027. Entirely New Structure: The existing structure with component rates and additional revenue being allocated to public safety, economic development and certified shares is being replaced with an entirely new structure with a maximum expenditure rate of 2.9%. More details on the new structure are available below.

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Barnes & Thornburg LLP

May 19 2025

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