PTET Already Making Waves? Indiana Releases Updated Guidance in Wake of One Big Beautiful Bill Act

Jul 30, 2025

Categories:

One Big Beautiful Bill Act
Tax Law Defined™ Blog

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The One Big Beautiful Bill Act (OBBBA) has changed the game in the world of tax with respect to many important issues, one being the passthrough entity tax (PTET). Specifically, the OBBBA continues to allow owners of passthrough entities, such as partnerships and S corporations, to elect to pay tax at the entity level in order to maneuver around the state and local tax (SALT) cap deduction even after its recent increase to $40,000 for the near term.[1]

As a result of the recent reaffirmation of the PTET by Congress in the OBBBA, many states will have to adjust their respective legislation to align with the OBBBA.[2] Possibly the first out of the gate, Indiana released an updated version of Bulletin No. 72B this month. The updated Bulletin No. 72B provides several important changes to the PTET that will be used for 2025 and later.[3] This article highlights these big, beautiful changes taking place in Indiana Bulletin No. 72B.

Tax Computation

Income calculations for years 2023-2025 will continue to be based on Indiana Form K-1, with specific line adjustments. From 2026 onward, however, a simplified method will be utilized. This new method will continue detailed rules for the treatment of losses, deductions, and capital gains.

To determine the tax, the total share of adjusted gross income for each owner must be determined and multiplied by the total share of the state individual adjusted gross income tax rate in effect on the last day of the taxable year.

Indiana's recent guidance also sets forth the updated tax computation rates for the coming years, which are as follows:

- 2022: 3.23%

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- 2023: 3.15%
- 2024: 3.05%
- 2025: 3.00%
- 2026: 2.95%
- 2027: 2.90%

PTET Tax Credits

Indiana Bulletin No. 72B also provides change for the 2025 and future years in relation to PTET tax credits. For years 2024 and earlier, only PTET paid or withheld could be used as credits—any other credits were not allowable against PTET. Starting in 2025 and later, however, additional credits will be allowed regardless of whether an entity elects to be subject to PTET, including: (1) estimated or withholding payments of PTET by passthrough and (2) PTET paid by another entity or tax withheld on behalf of the passthrough. Additionally, for 2025 or later, a passthrough entity that elects to be subject to PTET may compute its tax by applying certain credits, such as credits for residents for reverse-credit states,[4] Indiana-specific credits, and credits for taxes paid to other states.

Eligible Entities Update

One of the main changes taking effect this year, according to Bulletin No. 72B, pertains to entities which may qualify for Indiana's PTET, including estates and grantor trusts, as well as other entities. Bulletin No. 72B continues to make clear that "the only qualifying entities that can elect to be subject to PTET are entities that are treated as partnerships or S corporations for federal income tax purposes," including limited liabilities companies classified as partnerships or that elect to be treated as S corporations for federal income tax purposes.

And although estates and trusts cannot make the election to be subject PTET according to the Bulletin No. 72B, estates and non-grantor trusts *can* elect to "pass through PTET from another entity to their beneficiaries as PTET." Grantor trusts must treat the PTET as flowing through directly to the grantors of the trust.

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Additionally, Bulletin No. 72B provides other ineligible types of entities for PTET ownership purposes: (1) ESOPs, (2) tax-exempt retirement plans, and (3) government entities exempt from federal income tax.

Estimated Payments

For taxable years ending in 2025 and beyond, estimated PTET payments are due on the same dates as corporate estimated tax payments under IC 6-3-4-4.1. These dates are, respectively, April 20, June 20, September 20, and December 20 for calendar year filers. Fiscal year filers have estimated payments due on the 20th of the fourth, sixth, ninth and 12th month of their fiscal year. If the estimated payment exceeds 20% of the current year's PTET or 25% of the previous year's PTET (whichever is less), no penalty will be imposed for failure to make the estimated payment. It's important to note that penalties for failure to make estimated payments will be computed on a quarter-by-quarter basis, starting with estimated payments due on or after May 20, 2025.

Indiana Bulletin No. 72B also provides modifications for the estimated payments due on or after May 20, 2025. Any outstanding balance of PTET after all estimated payment is due on the 15th day of the fourth month after the end of the taxable year. Payments of PTET shall be submitted with Indiana Form IT-6WTH. Payments designated as *estimated* payments at the passthrough entity level will be treated as being estimated taxes. Estimated taxes at the *owner level* will not be treated as PTET estimated tax payments.[5]

These are but a handful of changes included in the updated PTET Bulletin No. 72B. In the coming months, it is likely that many states will release guidance and regulations regarding their respective PTET legislation and the relationship to the OBBBA. As a taxpayer, it is important to stay up to date on this topic as utilization of the PTET can result in huge tax savings for owners of qualifying entities.

Please reach out to the authors of this article if you have questions regarding these changes or any tax concerns related to the OBBBA. You can also continue to follow Frost Brown Todd's Tax Law Defined® Blog for insight into the latest developments in state, local

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and federal tax planning and tax administration.

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[1] For more information on the PTET and its history, *see* The One Big Beautiful Bill: Is PTET Alive?... | Frost Brown Todd. For a detailed account of the top ten biggest tax changes resulting from the OBBBA, *see* Top 10 Biggest Business Tax Breaks (and Hits) in... | Frost Brown Todd and other articles in Frost Brown Todd's Tax Law Defined Blog | Frost Brown Todd | Full-Service Law Firm.

[2] Currently, 36 states and 1 locality have enacted PTET legislation at the state level. It is likely that these states will have to modify current legislation with the increase of the SALT deduction cap. *See* Brian Myers, *Recent developments in states' PTETs*, The Tax Adviser, *available at* Recent developments in states' PTETs (last visited July 28, 2025).

[3] Indiana Bulletin No. 72B (July 2025), *available at* https://www.in.gov/dor/files/reference/ib72b.pdf.

[4] States such as Arizona, Oregon, and the District of Columbia (DC).

[5] It is important to note that for estimated payments made during 2025, there are penalty calculations for full-year taxpayers only. *See* Indiana Bulletin No. 72B at note 3, *supra*.

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