

STATE TAX WITHHOLDING CALCULATION

Below is the detail for Indiana. We have remote full-time workers in several other states and each state has their own way of calculation state tax, but are very similar to what we are describing for Indiana below. Additionally, there are a few states that have no state withholding tax.

INDIANA

Indiana State tax withholding is an ongoing prepayment system where your employer takes money from each paycheck and sends it to the IN DOR on your behalf. The exact amount withheld is a calculation based on your income and the information you provide on your Indiana form WH-4, Employee's Withholding Exemption & County Status Certificate.

Key Factors in the Calculation

Indiana has a flat tax rate for both State and County withholding, but still uses a more complex calculation to account for Personal and Additional exemptions claimed. The amount withheld depends on two primary factors:

- **State Taxable Income:** The total amount you earn each pay period minus any deductions that may be tax exempt (S125 Insurance, HSA, pretax 403b)

1. **Annualize Wages:** Multiply the taxable income by the number of pay periods in the year (x26 for biweekly and x24 for semi-monthly).
2. **Exemptions:** Subtract the total exemption allowances.
 1. **Personal Exemption Allowance:** \$1,000 per exemption claimed for self, spouse, age 65+, blindness, and dependents.
 2. **Additional Exemptions:** Additional amounts may be deducted for certain qualifying dependents and first-time adopted dependent exemptions (typically \$1,500 for each, or more for adopted dependents).
3. **Final Indiana Taxable Income:** The result after subtracting exemptions from Annualized wages.
4. **Annual Withholding:** Multiply the Final Indiana taxable income by the flat state tax rate (3.00% for 2025, 2.95% for 2026).
5. **Pay Period Withholding:** Divide the annual state tax withholding by the number of pay periods to get the amount to withhold for that period.

County Income Tax Withholding

In addition to the state tax, all 92 Indiana counties impose their own local income tax, with rates ranging from 0.50% to over 3.00%.

- The county tax is generally calculated on the same taxable income used for the state calculation.
- Employers must use the specific rate for the county where the employee lives (or works, depending on the situation and reciprocity agreements).
- Current county tax rates are published in the Indiana Department of Revenue's website and are updated periodically. Links is below.

Additional information can be found at this link at the Indiana Department of Revenue:

<https://www.in.gov/dor/files/dn01.pdf>