



Indiana Department of Revenue

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Income Tax Information Bulletin #122

Subject: Health Reimbursement Arrangement Tax Credit

Publication Date: December 2024

Effective Date: Upon Publication

References: IC 6-3.1-38

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Introduction

In 2023, the Indiana General Assembly enacted IC 6-3.1-38, which created a new Health Reimbursement Arrangement Tax Credit (the credit). The credit is available for employers who adopt Health Reimbursement Arrangements after Dec. 31, 2023, in lieu of traditional employer-provided insurance starting in the 2024 taxable year.

Definitions

A "covered employee" means an employee who is covered by a health reimbursement arrangement provided by their employer.

An "employer" means the person or entity for whom the covered employee performs services as an employer. In the case of a staffing agency, the staffing agency generally will be considered the employee. An employer does not include the following unless the employee actually performs services for that company:

- A professional employer organization
- A common paymaster for a group of businesses
- An affiliated corporation or other entity

An "eligible employer" means an employer with fewer than 50 employees. For purposes of this determination, the maximum number of employees during the taxable year will be used to determine eligibility. If an employer has 50 or more employees at any time during the taxable year, the employer is not an eligible employer, though minimal, short-term variances may be permitted on a case-by-case basis.

A “health reimbursement arrangement” means an arrangement described in IRC § 9831(d).

Computation of the Credit

To qualify for the credit, an eligible employer must do one of the following:

- Provide an amount toward the health reimbursement arrangement that is equal to or greater than either the level of benefits provided in the previous health insurance benefit year.
- Contribute an amount toward the health reimbursement arrangement equal to the same amount contributed per covered individual toward the employer provided health insurance plan during the previous year in which the employer provided health insurance benefits.

If the employer did not provide health insurance benefits during the previous year because it was a new employer as of the current year, the credit applies to the first two years starting in 2024 or later and in which the employer has a health reimbursement arrangement.

The credit is the lesser of the employer’s contribution to the health reimbursement arrangement for a covered employee or:

- \$400 for the first year of the health reimbursement arrangement established in 2024 or later
- \$200 for the second year of the health reimbursement arrangement established in 2024 or later
- \$0 for the third and subsequent year(s) of the health reimbursement arrangement established in 2024 or later

The amount of the credit is based on the employer’s taxable year of the credit, not the employee’s year or other period of membership. For example, if an employer establishes a health reimbursement arrangement in 2024 and hires a new employee covered by the arrangement in 2025, the credit for the employee is a maximum of \$200 rather than \$400.

In addition, the credit is computed on a per-employee basis. For example, if an employer establishes a health reimbursement arrangement in 2024 and contributes \$300 for one employee and \$600 for a second employee, the credit is \$700 (\$300 for the first employee plus a maximum of \$400 for the second employee) rather than \$800.

If the eligible employer is a pass-through entity such as a partnership or S corporation, the credit does not flow through to the entity’s owners, and the owners may not claim their proportionate share of the credit. The credit also is not available to be applied against the Indiana Pass Through Entity Tax.

Reporting the Credit and Special Procedures for 2024

To report the credit, Code 878 must be used. The credit will be reported on Schedule IN-OCC, Part A but without a PIN or Project Code. However, if the reporting software requires a PIN or project code, enter "1" for the code.

Upon a credit claim for tax years starting in 2024 only, the department will send the eligible employer a letter requesting Form HRA-1 for reporting information to verify the credit. The Form HRA-1 should not be provided with the return at the time of filing. It must be submitted separately according to the instructions on the form. Once a completed Form HRA-1 is submitted, the department will review the completed form and either allow the credit or adjust the claim as necessary. Failure to complete Form HRA-1 may result in denial of the credit in full.

Annual Credit Claims and Overall Limitations

The credit allowable to a taxpayer is limited to the taxpayer's state adjusted gross income tax liability or financial institutions tax liability for a taxable year after application of other nonrefundable credits allowable prior to this credit. If a credit is not allowable for a taxable year due to the limitation of the taxpayer's tax liability, the unused credit can be carried forward for up to 10 years after the first taxable year for which the credit was allowable and must be reduced as it is claimed. If any credit is carried forward, either to a future year or from a prior year, the credit must also be listed on Schedule IN-OCC, Part B.

The total amount of the credit for all claimants statewide is \$10 million per state fiscal year. For purposes of applying the limitation, the department will apply the limitation as follows:

- The department will list the current fiscal-year claims and/or remaining amount of the credit on its website.
- The credit reported as allowable for the taxable year will be reported in the order in which the return is received, from July 1 until the following June 30.
- If a credit is carried over from a prior taxable year, the credit will be applied to the limitation for the fiscal year in which the credit is actually used.
- If the annual credit limitation is reached for a fiscal year,
 - Any credit claim filed during the remainder of the fiscal year shall not be permitted.
 - The credit otherwise allowable on the return shall be permanently disallowed, though any carryovers shall be permitted. For instance, assume an individual had a \$10,000 credit for 2024 and was limited to \$8,000 due to state tax liability. If the return came in after the annual credit limitation was reached, the \$8,000 credit will be permanently disallowed but the \$2,000 carryover into 2025 through 2029 will be permitted.
 - The resulting tax from the credit disallowance shall not be subject to penalties under IC 6-3-4-4.1, IC 6-5.5, or IC 6-8.1-10-2.1.
- If a credit is subsequently disallowed for a taxpayer due to insufficient tax liability, the credit shall be treated as allowable for the year in which the liability was first claimed.

- If a credit is properly claimed in a fiscal year but later applied to a previous taxable year (e.g., an increase in liability for the prior taxable year), the credit will be applied for cap purposes in the fiscal year of the original claim.

If you have any questions concerning this bulletin, contact the Tax Policy Division at taxpolicy@dor.in.gov.

A handwritten signature in black ink that reads "Robert J. Grennes, Jr." in a cursive style.

Robert J. Grennes, Jr.
Commissioner
Indiana Department of Revenue