

Your Guide to Retiring in Indiana

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Tax benefits, low housing costs, recreational opportunities and more.

By Gail Perry

For retirees who love travel, Indiana's central location makes it easy to get to wherever you want to go. Lower-than-average housing and relatively low cost of living are just a few of the benefits for retirees in the state, along with a very diverse landscape and ample recreation opportunities with plenty of state parks and lakes. Highlights of the Hoosier state's small-town charm include the noteworthy Covered Bridge Festival, access to Lake Michigan on the northern border and high-profile college sporting events that have gained national acclaim – not to mention the Indianapolis 500, one of the largest sporting events in the world.

Personal Income Tax

Indiana has a 3.05% flat income tax rate, down from 3.15% in 2023. Some jurisdictions also levy a local income tax on top of that, which varies by jurisdiction. The median average local income tax is 1.68% and varies by county and ranges from a low of 0.5% to 2.94%. There is no standard deduction in Indiana and the state allows a \$1,000 exemption for each exemption claimed on the federal tax return.

Seniors age 65 and older also have the benefit of an additional \$1,000 exemption for taxpayers and spouses if they are 65 or older. Lower income seniors will get an additional \$500 exemption if their federal adjusted gross income is less than \$40,000, or if filing separately, \$20,000. Very low income seniors with a federal adjusted gross income of less than \$10,000 may also qualify for the Unified Tax Credit for the Elderly, which ranges from \$40 to \$140.

529 College Savings Account and Other Considerations

Seniors who contribute to their children's or grandchildren's college fund through the

Indiana 529 Savings Plan will get a big benefit at tax time, with a 20% state income tax credit up to \$1500 per year.

Other deductions and credits that can reduce tax liability include:

- Renter's deduction, which can be as much as \$3,000
- Deduction for expenses for home insulation installations – especially handy for those cold winters!
- Credit for donations to an Indiana college or university
- Indiana earned income tax credit of 10% of the federal earned income tax credit
- Residential property tax deduction up to \$2,500 (\$1,250 for filing separately)
- Lake County residential income tax credit, available for those who paid property tax in Lake County and earned less than \$18,600. Lake County is the only county in Indiana which has this type of credit.

State sales tax is 7.0%, with no additional local sales taxes. Food grocery items are exempt from sales tax. Shoppers will see some exceptions, however. Items such as candy, soft drinks, dietary supplements, prepared food and heated food are subject to sales tax.

Pension, Social Security and Retirement Account Deductions

Social Security benefits are not subject to Indiana state tax, but the state does tax IRA, 401(k) and other retirement distributions at the standard rate of 3.05%.

Property Tax and Estate Tax

Property taxes are relatively moderate compared to other states, and seniors have some property tax deductions available. The over-65 Circuit Breaker Credit also limits how much your property tax can increase annually, capping the annual increase at 2%. The rate does vary by district, with over 1,950 distinct taxing districts across the state, with the highest property tax rates seen in Lake and St. Joseph counties.

Statewide, the median property tax rate is 2.3295%, although this figure is mitigated by the state's property tax cap and homestead standard deduction. The homestead deduction is equal to the lesser of \$45,000 or 60% of gross assessed value. The property tax is calculated on the net assessed value after deductions are applied.

The property tax cap also kicks in across some of the higher tax jurisdictions, placing a cap of 1% on gross assessed value for homestead property and 2% for other residential property. If the tax liability exceeds the liability it would be under the tax cap, the county

auditor provides the “circuit breaker credit” to bring the liability in line with the appropriate tax cap.

Rates may still go up year-over-year though, since assessed value can be adjusted annually to reflect market value. Another factor is that counties may impose their own exceptions to the Circuit Breaker cap if voters approve an exception in a public referendum.

Indiana does not have an estate tax or inheritance tax.

Planning for your retirement in Indiana, as is the case with all states, requires careful consideration of factors including cost of housing, which is comparatively low in Indiana, along with factors such as property tax, state tax and available deductions, and of course, the availability of the type of recreational opportunities that suit your retirement goals.

Working with a financial professional can help in optimizing retirement plans and ensuring that you are taking full advantage of the available tax benefits. You can find a licensed professional [here](#).

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