

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS
FISCAL IMPACT STATEMENT**

LS 6788
BILL NUMBER: HB 1378

NOTE PREPARED: Dec 23, 2025
BILL AMENDED:

SUBJECT: Child Care Tax Credits.

FIRST AUTHOR: Rep. Campbell
FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X GENERAL
DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: *Child and Dependent Care Tax Credit:* The bill provides a child and dependent care refundable tax credit against an individual's Indiana adjusted gross income tax for employment related child and dependent care expenses based on the percentage of the federal child and dependent care tax credit the taxpayer claimed for the taxable year for federal income tax purposes.

Child Tax Credit: The bill also provides a child tax credit against an individual's Indiana adjusted gross income tax.

Employer Child Care Expenditure Credit: The bill provides that costs incurred:

- (1) for the operating costs of a child care facility operated for a taxpayer's employees; or
- (2) under a contract with a child care facility to provide child care services to employees of the taxpayer, or under a contract with an intermediate entity that contracts with one or more child care facilities for child care services;

are qualified expenditures for purposes of the employer child care expenditure income tax credit.

Effective Date: January 1, 2026 (retroactive).

Explanation of State Expenditures: *Department of State Revenue (DOR):* The bill establishes new refundable tax credits and makes changes to the employer child care expenditure income tax credit. The DOR will experience additional workload and expenses to put the bill's changes in place. The DOR should be able to make these changes within current resource levels.

Explanation of State Revenues: *Summary* - The proposal will reduce annual state General Fund revenue by an estimated \$402 M beginning in FY 2027.

Additional Information - *Child Tax Credit:* The bill establishes a refundable child tax credit equal to \$300 per qualifying child for whom the taxpayer was eligible to claim for the federal child tax credit during the taxable year. The proposal would decrease state General Fund revenue by an estimated \$386 M annually beginning in FY 2027. The credit may be claimed beginning in tax year 2026.

In tax year 2022, 805,120 Indiana filers claimed the federal child and other dependent tax credit. The estimate assumes that around 80% of federal claims were for qualifying children and that eligible filers claim an average of two qualifying children.

Child and Dependent Care Tax Credit: The bill establishes a refundable child and dependent care tax credit equal to 20% of the federal credit. The bill would reduce state General Fund revenue by an estimated \$13 M annually beginning in FY 2027. The credit is available beginning in tax year 2026. In tax year 2022, Indiana filers claimed \$65.3 M for the federal Child and Dependent Care Tax Credit.

Employer Child Care Expenditure Credit: The bill makes changes to the employer child care expenditure credit that will increase claims for the credit. The bill will reduce state General Fund revenue by up to the credit cap of \$2.5 M annually beginning in FY 2027.

The bill expands the definition of eligible child care expenditures for the credit to include operating costs of an employer-run child care facility and expenses for contracts for a third-party to provide childcare for the employees' children. Under current law, the credit may only be claimed on expenses related to establishing new Indiana licensed childcare facilities for their employees' children.

The credit amount is equal to 50% of the employer's qualified expenditures for licensed childcare for employees' children. The maximum credit per employer per year is \$100,000. The credit may be carried forward for three years.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue.

Local Agencies Affected:

Information Sources: IRS. SOI Tax Stats - Historic Table 2. Indiana, Tax Year 2022. <https://www.irs.gov/statistics/soi-tax-stats-historic-table-2>; Congressional Research Service. (2025, November 13). The Child Tax Credit: How It Works and Who Receives It. <https://www.congress.gov/crs-product/R41873>

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