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

LS 7071 | **NOTE PREPARED:** Jan 12, 2026
BILL NUMBER: SB 212 | **BILL AMENDED:**

SUBJECT: State Income Tax Conformity.

FIRST AUTHOR: Sen. Holdman | **BILL STATUS:** CR Adopted - 1st House
FIRST SPONSOR:

FUNDS AFFECTED: X GENERAL | **IMPACT:** State & Local
DEDICATED
FEDERAL

Summary of Legislation: The bill amends the definition of "Internal Revenue Code" to conform with certain provisions enacted in Public Law 119-21 (H.R. 1) (commonly known as the One Big Beautiful Bill Act of 2025).

Effective Date: January 1, 2025 (retroactive).

Explanation of State Expenditures: *Department of State Revenue (DOR):* The DOR will incur 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: The bill updates the reference to Internal Revenue Code (IRC) for some income tax provisions within Indiana Code from January 1, 2023, to July 4, 2025. This updates the federal IRC reference to include certain sections of H.R.1-2025, which was signed into law as Public Law No. 119-21 on July 4, 2025. Updating the reference for the provisions in the bill will result in revenue loss to the state General Fund of about $1.4 M in FY 2026, $1.3 M in FY 2027, and $1.6 M in FY 2028. The fiscal impact will continue in future years.

Additional Information - Internal Revenue Code Update: Under Indiana Code 6-3-1-3.5, the calculation of state income tax begins with federal adjusted gross income (AGI) for individuals and with federal taxable income for corporations. Federal AGI is defined by IRC Section 62, and taxable income is defined by IRC Section 63. The current reference to the IRC pertains to all IRC provisions amended and in effect on January 1, 2023. The bill changes the reference to July 4, 2025, for the following provisions:
(1) Section 23 of the IRC - Adoption Tax Credit.
(2) Section 168(e)(3)(B)(vi) of the IRC - Accelerated Cost Recovery System.
(3) Section 223(c)(2)(E) of the IRC - Safe Harbor for Absence of Deductible for Telehealth.

These changes impact individuals, pass-through entities, and corporations. The fiscal impact is on both state individual and corporate income taxes, which are deposited into the state General Fund. Adjustments to individual income taxes also affect local income taxes.

Adoption Tax Credit: Under current law, Indiana taxpayers that claim the federal adoption tax credit can claim the state adoption tax credit. The state credit equals the lesser of: (1) 20% of the federal adoption credit amount; or (2) $2,500 per eligible child. The federal adoption credit is equal to the qualified adoption expenses, with some limitations. The federal credit was nonrefundable until 2024.

As amended by P.L. 119-21-2025, beginning tax year 2025, up to $5,000 of the federal adoption credit may be refundable. Any non-refundable portion of the credit that exceeds a taxpayer's liability can still be carried forward for up to five subsequent tax years. Among other changes, the federal law provides that Indian tribal governments can determine whether or not a child has special needs for purpose of the adoption credit.

Updating IRC reference to include these provisions will increase the amount of Indiana adoption tax credit claimed by individual income taxpayers by about $1.2 M in FY 2026, $0.8 M in FY 2027, and $0.8 M in FY 2028. The fiscal impact will continue in future years.

Accelerated Cost Recovery System: P.L. 119-21-2025 terminates the special five-year cost recovery period for investments in certain solar and wind property for which construction begins after December 31, 2024. This would result in additional revenues of about $0.1 M in FY 2026, $0.2 M in FY 2027, and $0.2 M in FY 2028 in individual income tax and corporate income tax. The fiscal impact will continue in future years.

Safe Harbor for Absence of Deductible for Telehealth: P.L. 119-21-2025 extended and made permanent a provision that allows a health plan to be treated as a high-deductible health plan without requiring a deductible for telehealth services. This bill updates IRC references to provide the same benefit to Indiana state income tax filers. This would result in reducing Indiana individual income tax by about $0.3 M in FY 2026, $0.7 M in FY 2027, and $1.0 M in FY 2028. The fiscal impact will continue in future years.

Explanation of Local Expenditures:

Explanation of Local Revenues: To the extent that some of these provisions would impact adjusted gross income for individual taxpayers, counties imposing a local income tax (LIT) could potentially experience a reduction in LIT revenue. The net revenue loss is estimated to be $0.1 M in FY 2026, $0.3 M in FY 2027, and $0.5 M in FY 2028. The fiscal impact will continue in future years.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: All local units.

Information Sources: IRS Publication, https://www.irs.gov/newsroom/one-big-beautiful-bill-provisions; OFMA Income Tax Database; OFMA Income Tax Database.

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