

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

LS 6681
BILL NUMBER: SB 263

NOTE PREPARED: Dec 21, 2025
BILL AMENDED:

SUBJECT: Child and Dependent Care Tax Credit.

FIRST AUTHOR: Sen. Ford J.D.

BILL STATUS: As Introduced

FIRST SPONSOR:

FUNDS AFFECTED: **GENERAL**
DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: The bill provides a refundable child and dependent care tax credit to taxpayers whose adjusted gross income for the taxable year is not more than 250% of the federal poverty level.

It provides that the credit is equal to the lesser of:

- (1) an amount ranging from \$200 to \$1,000, depending on the extent to which the taxpayer's adjusted gross income exceeds the federal poverty level; or
- (2) 20% of the taxpayer's employment related expenses.

Effective Date: January 1, 2026 (retroactive).

Explanation of State Expenditures: *Department of State Revenue (DOR)*: The bill establishes a new refundable 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: The bill creates a refundable state income tax credit for individuals with employment related expenses whose Indiana adjusted gross income (AGI) is not more than 250% of the federal poverty level (FPL). The tax credit will reduce the tax liability for individual taxpayers starting in tax year 2026. It would reduce state General Fund revenues between \$32 M and \$50 M annually beginning in FY 2027.

The amount of the tax credit is 20% of the amount of employment related expenses incurred during the taxable year, up to a cap that depends on the taxpayer's AGI. The bill establishes maximum credit amounts as follows:

- Up to \$1,000 for taxpayers with Indiana AGI of not more than 185% of the FPL
- Up to \$800 for taxpayers with Indiana AGI greater than 185% but not more than 201% of the FPL
- Up to \$600 for taxpayers with Indiana AGI greater than 201% but not more than 217% of the FPL
- Up to \$400 for taxpayers with Indiana AGI greater than 217% but not more than 233% of the FPL
- Up to \$200 for taxpayers with Indiana AGI greater than 233% but not more than 250% of the FPL

Taxpayers with Indiana AGI greater than 250% of the FPL may not claim the tax credit even if they have employment related expenses. [The credits will reduce General Fund revenue equal to the amount of credits claimed.]

Additional Information - The bill defines employment related expenses as the amount paid for the care of a qualifying individual and incurred to enable a taxpayer to be gainfully employed, mirroring definitions of the federal Child and Dependent Care Tax Credit. In 2021, when the federal credit was refundable, about 118,200 Indiana residents with federal AGI claimed a federal credit available for qualified child and dependent care expenses.

The estimate is based on the actual number of Indiana filers who claimed the federal credit in 2021 grouped by federal AGI. The estimate assumes between 44,000 and 58,000 filers will claim the state credit. The estimated range takes into account the income limitations in the bill and makes certain assumptions about the level of expenditure and income of the federal claimants.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue.

Local Agencies Affected:

Information Sources: LSA Income Tax Database; IRS Statistics of Income, Historical Table 2, <https://www.irs.gov/statistics/soi-tax-stats-historic-table-2>; U.S. Department of Health and Human Services, 2025 Poverty Guidelines.

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