



Indiana Department of Revenue

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Income Tax Information Bulletin #126

Subject: Employer Child Care Expenditure Credit

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Introduction

In 2023, the Indiana General Assembly enacted IC 6-3.1-39.5, which created a new Employer Child Care Expenditure Credit (the "Credit"), which was available beginning with the 2024 taxable year. The Credit is available for taxpayers that make qualified child care expenditures in Indiana.

Definitions

SEA 1177 (2026) amended some of the definitions applicable to the Credit. For purposes of this bulletin, the definitions below are bifurcated into the relevant definitions for the 2025 tax year and the amended definitions for the 2026 tax year (and every subsequent tax year). Relevant changes are **bolded** in the latter section.

For 2024 and 2025 Tax Year

"Taxpayer" means any person, corporation, limited liability company, partnership, or other entity that has any state tax liability and employs 100 individuals or less. The term includes a pass through entity. However, the term does not include a taxpayer who is in the business of operating a child care facility prior to making qualified expenditures.

"Indiana qualified child care facility" means a facility that is:

- a qualified child care facility (as defined in Section 45F of the Internal Revenue Code);
- located in Indiana;
- licensed by the division of family resources under IC 12-17.2; and
- operated:
 - by a taxpayer;

- by a taxpayer jointly with one (1) or more other individuals or entities; or
- under a contract described in Section 45F(c)(1)(A)(iii) of the Internal Revenue Code with the taxpayer.

"Qualified child care expenditures" means expenditures:

- for the acquisition, construction, rehabilitation, or expansion of property used as part of an Indiana qualified child care facility of a taxpayer that is operated for the taxpayer's employees;
- incurred under a contract between a taxpayer and an Indiana qualified child care facility to provide for the acquisition, construction, rehabilitation, or expansion of property used as part of the Indiana qualified child care facility; or
- for purposes of complying with the qualified child care facility licensure requirements under IC 12-17.2, as part of the taxpayer acquiring or constructing an Indiana qualified child care facility.

For 2026 Tax Year and Later

"Taxpayer" means any person, corporation, limited liability company, partnership, or other entity that has any state tax liability and employs **500** individuals or less. The term includes a pass through entity. However, the term does not include a taxpayer who is in the business of operating a child care facility prior to making qualified expenditures.

"Indiana qualified child care facility" means a facility that is:

- a qualified child care facility (as defined in Section 45F of the Internal Revenue Code);
- located in Indiana; and
- licensed by the division of family resources under IC 12-17.2.

"Qualified child care expenditures" means expenditures:

- for the acquisition, construction, rehabilitation, or expansion of property used as part of an Indiana qualified child care facility of a taxpayer that is operated for the taxpayer's employees;
- incurred under a contract between a taxpayer and an Indiana qualified child care facility to provide for the **operating costs**, acquisition, construction, rehabilitation, or expansion of property used as part of the Indiana qualified child care facility;
- for purposes of complying with the qualified child care facility licensure requirements under IC 12-17.2, as part of the taxpayer acquiring or constructing an Indiana qualified child care facility;
- **incurred for the operating costs of an Indiana qualified child care facility of a taxpayer that is operated for the taxpayer's employees, including costs related to training of employees, to scholarship programs, and to provide increased compensation to employees with higher levels of child care training;**
- under a contract with an Indiana qualified 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 Indiana qualified child care facilities for child care services; or
- under a contract to provide child care resources and referral services to an employee of the taxpayer.

Tax Credit

The Credit is 50% of the employer's qualified expenditures for Indiana licensed childcare facilities, up to a maximum Credit of \$100,000 per employer. The amount of allowable Credits is \$2,500,000 per state fiscal year and is awarded in the order of returns claiming the Credit.

If the amount of the Credit for a taxpayer in a taxable year exceeds the taxpayer's state tax liability for that taxable year, the taxpayer may carry the excess Credit over for a period not to exceed the eligible taxpayer's following three taxable years. The amount of the Credit carryover from a taxable year will be reduced to the extent that the carryover is used by the taxpayer to obtain a Credit for any subsequent taxable year. A taxpayer is not entitled to a carryback or a refund of any unused Credit amount. Taxpayers may not assign any part of a Credit to which the taxpayer is entitled.

Claiming the Tax Credit

A taxpayer must claim the credit on the taxpayer's state tax return. To report the Credit, Code 876 must be used.

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



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