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Newborn Tax Credit: the Pro-Family Policy Indiana Needs

The problem: Parents face rising costs to support their families

Unpaid time off work



Reduced work hours or unpaid leave for prenatal visits and recovery from childbirth

Medical Care



Medical costs associated with prenatal care, childbirth, & caring for a sick child

Child Care



Childcare costs which range from \$7,000 to \$25,000 annually across Indiana

Diapers



Diapers, which cost between \$960 and \$1,200 per young child each year

These costs add up quickly and create difficulties for families welcoming a new child.¹ **Indiana's current \$1,500 exemption for a newborn only equates to about \$45 dollars in tax relief for a new family.**

SB 497: Tax Credit for Newborn Children

SB 497: Tax Credit for Newborn Children, authored by Sens. Walker and Donato, will repurpose the existing \$1,500 tax exemption and turn it into a more robust \$500 refundable tax credit (\$250 for married filing separately). The credit will be available to Indiana families up to 720% of the poverty line. **A tax credit of \$500 would provide meaningful support to families as they navigate the challenges of caring for a newborn baby.**

SB 497 would...



Increase Indiana's support for newborns by 1,000%



Help families afford the many costs associated with having a newborn, like diapers and medical bills



Target state funds to the most critical time for families - the first year of life



Make Indiana a more pro-family state to raise a child - which is good for families and also incentivizes business development

This bill's \$34 million price tag means **big impact for families and low fiscal impact on the budget.** Implementing a Newborn Tax Credit is an opportunity for Indiana to be both innovative and fiscally responsible in how we support families while adapting to Indiana's current needs.

Policy Comparison

	NEWBORN TAX CREDIT	EXISTING EXEMPTION
<i>Amount of state tax relief for a family with a newborn</i>	\$500, or \$250 for a parent filing a separate return	\$45
<i>Flexibility for parents</i>	Refundable credit puts money back into their pocket to help with diapers, childcare, and medical expenses	Exemption reduces taxable income, but does not always translate to a refund for parents
<i>Empowering parents by simplifying the tax code</i>	Credits are easy to understand, dollar-for-dollar tax relief applied to a family's tax liability - a \$500 credit equals \$500 of tax relief	Exemptions can be confusing for taxpayers because they reduce taxable income - which means a \$1,500 exemption only equals \$45 in tax relief

First Year of Life – there’s no time to waste!

- Research underscores **the importance of the first 3 years of a child’s life in shaping their cognitive, emotional, and social development**. Over a million new neural connections form every second from birth to age 3, and the brain relies on environmental input to fully form.ⁱⁱ Unfortunately, this period of rapid growth makes young children especially susceptible to harmful environmental stressors—such as poverty.ⁱⁱⁱ
- Income supplements, such as newborn tax credits, can reduce poverty and improve child and parent health^{iv}, as well as benefit a **child’s long-term health, education, and earnings**.^v
- Research also suggests that financial relief to young families pays dividends. **For every \$1,000 provided to families with children, society reaps \$5,603 in benefits** due to: (1) increased earnings in adulthood, (2) reduced health care costs, and (3) fewer expenditures related to crime.^{vi}
- Another longitudinal analysis found that **a mere \$1,300 in cash benefit during infancy can produce long-term impacts** in a young person’s educational and employment outcomes.^{vii}

ⁱ Cox, C. & Claxton, G. (2024). Medical debt among new mothers. *Kaiser Family Foundation*. [https://www.healthsystemtracker.org/brief/medical-debt-among-new-mothers/#Share%20of%20women%20ages%2018-35%20with%20at%20least%20\\$250%20in%20medical%20debt](https://www.healthsystemtracker.org/brief/medical-debt-among-new-mothers/#Share%20of%20women%20ages%2018-35%20with%20at%20least%20$250%20in%20medical%20debt)
Brighter Futures Indiana Data Center (2024). Affordability. <https://brighterfuturesindiana.org/data-center>

National Diaper Bank Network (2024). Indiana Diaper Facts. <https://nationaldiaperbanknetwork.org/wp-content/uploads/Indiana.pdf>

ⁱⁱ Brain Architecture.” Center on the Developing Child at Harvard University, 14 Apr. 2004, <https://developingchild.harvard.edu/key-concept/brain-architecture/>.

ⁱⁱⁱ “A Guide to Toxic Stress.” Center on the Developing Child at Harvard University, 14 May 2005, <https://developingchild.harvard.edu/resource-guides/guide-toxic-stress/>.

^{iv} “Cash Transfers.” Prenatal-to-3 Policy Impact Center, <https://pn3policy.org/policy-clearinghouse/cash-transfers/>. Accessed 13 Jan. 2025.

^v Newborn Tax Credit Could Be Worthwhile, With Sound Administration | Tax Policy Center. 29 Aug. 2024, <https://taxpolicycenter.org/taxvox/newborn-tax-credit-could-be-worthwhile-sound-administration>.

^{vi} Garfinkel, I., Sariscsany, L., Ananat, E., Collyer, S. M., Hartley, R. P., Wang, B., & Wimer, C. (2022). *The Benefits and Costs of a US Child Allowance* (No. w29854). National Bureau of Economic Research.

^{vii} Barr, A., Eggleston, J. and Smith, A. A. (2022). Investing in infants: The lasting effects of cash transfers to new families. *The Quarterly Journal of Economics*, qjac023.