

Thank you, Chairman Holdman and members of the committee.

I deeply appreciate the opportunity for public testimony today. My name is Olivia Smith, and I am the Tax and Budget Policy Analyst with the Indiana Community Action Poverty Institute. Our research and policy advocacy focuses on promoting the financial well-being of all Hoosiers.

In the interest of the committee's time, I have been asked to convey the endorsement of several organizations rising in support of SB 497: Prosperity Indiana, Indiana Assets and Opportunities Network, RESULTS, Indiana Coalition Against Domestic Violence, Healthier Moms and Babies, Indiana Catholic Conference, United Way of Central Indiana, Indiana Family Institute, Lafayette Urban Ministries, and Indiana United Ways.

We know that Hoosiers recognize the importance of putting family first, and for the thousands of households with children across Indiana, that means giving our youngest Hoosiers – the future leaders, entrepreneurs, and workers of 2040 – a strong foundation to build good lives. However, we also know that parents face unique financial challenges in the first year of their child's life. These include reduced work hours or unpaid leave for prenatal visits and recovery from childbirth, medical costs for care for mom and baby, childcare costs that range anywhere from \$7,000 to \$25,000 annually across the state, and rising costs for everyday supplies for their child. Diapers alone cost Indiana parents about \$1,000 a year for each young child.

In light of these challenges, we were excited to see the legislature add a newborn exemption to our state tax code in 2023, which reduces a family's taxable income by \$1,500 when they claim their child on their taxes for the first time. This policy supports parents with a new child through birth or adoption, and recognizes the need to support families at a financially vulnerable time. Senate Bill 497 builds upon that great concept by making that support more substantial and more flexible to meet different families' unique needs.

Because exemptions reduce taxable income, the current \$1,500 newborn exemption actually only translates to \$45 of state tax relief for a family. SB 497 repurposes that exemption into a fully refundable, \$500 tax credit for families earning up to 720% of the federal poverty level. Changing the mechanism from an exemption to a dollar-for-dollar credit would not only put more money back in parents' pockets, but also make the tax code easier to understand for everyday Hoosiers. Using a tax credit to provide this support to parents is also a very efficient method of delivery, with low administrative burden for both the state and for families.

Ultimately, SB 497's support to families would make meaningful impacts on children's lives. Income supplements such as newborn tax credits are research-backed tools that can reduce poverty and improve both child and parent health. Vanderbilt University's Prenatal-to-Three Policy Impact Center has rigorously reviewed evidence on policies that produce positive outcomes for young children, and have found that income supplements support children's healthy cognitive and physical development, reduce food insecurity for families with children, and even improve parents' mental health. The flexibility of this newborn tax credit means that parents can use those dollars in the way that best meets the needs of their family, maximizing positive outcomes for their children.

Again, thank you for the opportunity to testify in support of this bill today, and for this committee's efforts to support families through the tax code.