



Indiana Department of Revenue

Indiana Government Center • 100 N. Senate Ave. Indianapolis, IN 46204 • dor.in.gov

Income Tax Information Bulletin #111

Subject: Income Tax Credit for Eligible Adoptions

Publication Date: February 2026

Effective Date: January 1, 2025 (retroactive)

References: IC 6-3-3-13; IRC section 23

Replaces Bulletin #111, dated November 2022

Disclaimer: Information bulletins are intended to provide nontechnical assistance to the general public. Every attempt is made to provide information that is consistent with the appropriate statutes, rules, and court decisions. Any information that is not consistent with the law, regulations, or court decisions is not binding on either the department or the taxpayer. Therefore, the information provided herein should serve only as a foundation for further investigation and study of the current law and procedures related to the subject matter covered herein.

Summary of Changes

Other than technical, nonsubstantive adjustments, this bulletin is updated to reflect that the determination of the federal credit includes the federally-refundable credit available for 2025.

Introduction

Indiana provides an adjusted gross income tax credit for individuals who are eligible to claim the federal tax credit for eligible adoption expenses. For tax year 2022 and later, the credit is the lesser of \$2,500 per eligible child or 20% of the federal adoption credit, which is refundable if the credit exceeds the taxpayer's Indiana adjusted gross income tax liability.

Senate Enrolled Act 212 (2026) provides that Indiana follows the federal allowance for the federally-refundable tax credit for 2025 and later as a result of the revision of the definition of "Internal Revenue Code" to July 4, 2025, the effective date of P.L. 119-21 (H.R. 1). This also grants Indian tribal governments the authority to determine if a child is a child with special needs for purposes of the federal adoption credit.

Amount of Credit

An individual who is eligible to claim the federal credit for adoption on the individual's federal return for the taxable year is entitled to a credit against the individual's Indiana adjusted gross income tax liability. The credit is equal to the lesser of:

- (1) The amount of the credit allowable on the federal income tax return for each eligible child on the individual's federal return for the taxable year multiplied by 20%; or
- (2) \$2,500 for each eligible child

For 2025 and later, the federal credit includes the refundable portion allowed under IRC § 23(a)(4). In addition, for purposes of the allowance related to children with special needs, Indiana follows the expanded allowance for determinations by Indian tribal governments.

In the case of a child for whom a federal adoption credit is available for multiple years (e.g., a federal credit carryforward or expenses incurred for which the federal credit is allowable in multiple years), the maximum Indiana adoption credit for the eligible child is limited to \$2,500 for all years. The \$2,500 limit for 2022 and later is also reduced by any pre-2022 Indiana adoption credits claimed for the eligible child.

Effective for tax year 2022 and later, if the Indiana adoption credit exceeds a taxpayer's Indiana adjusted gross income tax liability, the excess Indiana adoption credit is treated as a refundable credit to the taxpayer. In other words, if a taxpayer's Indiana adjusted gross income tax liability for 2022 is \$1,500 before credits and the Indiana adoption credit for 2022 is \$2,000, the full \$2,000 credit is allowed in 2022.

For purposes of applying the limitation, the federal credit for a taxable year will be prorated across the federal credit allowable for each child. In addition, if a federal adoption credit is claimed over multiple years, this computation will be made separately each year for the federal credit determined for that taxable year.

Example #1: An Indiana couple adopted two children in 2021. The couple was permitted a federal tax credit of \$27,000 for 2021 adoption expenses, incurred evenly across both children. However, the couple was only permitted to claim a \$3,000 federal credit in 2021 due to their 2021 federal tax liability. The couple claimed a \$300 credit for Indiana (\$150 per child). In 2022 through 2024, the couple did not claim a federal adoption credit. In 2025, the couple was permitted to claim the remaining \$24,000 of federal credit, \$12,000 per eligible child.

The first test (federal credit times 20%) results in an Indiana adoption credit of \$2,400 for each child. However, because the couple previously claimed \$150 in credit for each child in 2021, the maximum Indiana adoption credit per child is \$2,350 (\$2,500-\$150). Thus, the couple's Indiana adoption credit is limited to \$4,700 (\$2,350 per child times 2). The entire \$4,700 must be claimed in 2025.

Example #2: A taxpayer adopts two children in 2025. For Child 1, the federal adoption credit prior to federal limitations is \$14,000. For Child 2, the federal adoption credit prior to federal limitations is \$11,000. The combined credit for 2025 prior to any federal limitations based on tax liability is \$25,000. The federal limitation for 2025 is \$10,000 because of the refundable portion of the credit and \$5,000 due to the taxpayer's federal tax liability. The federally-limited credit (\$15,000) will first be prorated so that the credit for Child 1 is \$8,400 ($\$14,000/\$25,000*\$15,000$) and the credit for Child 2 is \$6,600 ($\$11,000/\$25,000*\$15,000$). The

20% Indiana limitation will be applied so that \$1,680 of the credit will be allowable for Child 1 and \$1,320 for Child 2 for 2025. This \$3,000 (\$1,680+\$1,320) total is allowable for 2025.

In 2026, the taxpayer claims the remaining \$10,000 of the 2025 federal credit and also claims an additional \$1,000 for 2026 with regard to allowable expenses incurred for Child 2. The federal adoption credit for 2026 attributable to Child 1 is \$85,600 (\$10,000*56% for 2022) and \$5,400 (\$10,000*44%, or \$4,400, for 2025 and \$1,000 for 2026) for Child 2. The first Indiana adoption credit calculation for Child 1 is \$1,120 (\$5,600*20%). However, due to the \$2,500 per child limitation, the allowable credit for Child 1 is \$820 (\$2,500-\$1,680).

For Child 2, the first Indiana adoption credit calculation is \$1,080 (\$5,400*20%). The second Indiana adoption credit limitation is \$1,180 (\$2,500-\$1,320). The allowable Indiana adoption credit for 2026 is \$1,080, the lesser of these amounts. Thus, the total Indiana adoption credit for 2026 is \$1,900 (\$820 for Child 1 plus \$1,080 for Child 2).

Example #3: For 2025, a taxpayer has a credit of \$14,000 prior to federal limitations with regard to adoption expenses incurred for one child. However, due to the income phaseout under IRC section 23, the taxpayer's federal credit is reduced to \$10,000. The taxpayer claims the entire \$10,000 as a federal credit in 2025. The Indiana adoption credit is \$2,000. The federal income phaseout for the adoption credit reduces the amount allowable for federal purposes and for Indiana.

Recordkeeping and Other Requirements

When claiming the Indiana adoption credit, keep a copy of your federal Form 8839 for the current year and any previous years from which the credit was carried forward. The department may request a copy of the Form 8839 for the current and previous years in order to verify the proper amount of the credit including any prior-year worksheets. In addition, if the child for whom you are claiming is not listed as your dependent, you may be asked to provide information explaining why the child is not listed as a dependent child.

If the federal adoption credit is adjusted, this could result in an adjustment to the Indiana tax liability. Any federal change to the adoption credit must be reported to Indiana by filing an amended Indiana income tax return within 180 days of the date the federal adjustment is finalized.

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



M. Kevin Gulley
Commissioner
Indiana Department of Revenue