



[SF 572](#) – Tax Education Support Modifications Bill (LSB2542SV)
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Fiscal Note Version – New

Description

[Senate File 572](#) relates to specified education programs and tax credits.

Division I — Tuition and Textbook Tax Credit. Iowa Code section [422.12](#)(2)(b) provides an income tax credit equal to 25.0% of the first \$2,000 that the taxpayer has paid to others for each dependent in grades kindergarten through 12, for tuition and textbooks of each dependent who is receiving private instruction or who is attending an elementary or secondary school that is situated in Iowa and meets certain criteria. The Bill specifies that amounts paid from an account in the Education Savings Account Fund under Iowa Code section 257.11B, as enacted by 2023 Iowa Acts, [HF 68](#) (Education Savings Accounts Act), cannot be eligible for the credit.

Division I takes effect upon enactment and applies retroactively beginning with tax year (TY) 2023.

Division II — School Tuition Organization Grants. Iowa Code sections [422.11S](#) and [422.33](#) provide a school tuition organization (STO) tax credit against the individual income tax and corporate income tax, respectively, for contributions made by the taxpayer during the tax year to an STO. The Bill extends, from one year to three years, the time the STO has to allocate at least 90.0% of the STO's annual revenue in tuition grants. The Bill also adds a requirement to the criteria for an STO by specifying that for eligible students participating in the Education Savings Account Program under Iowa Code section 257.11B, the STO only provides tuition grants in amounts not to exceed the tuition amount for which the parent or guardian is responsible for payment following application of amounts paid using moneys from the student's account in the Fund. This provision applies to tuition grants made for school years beginning on or after July 1, 2023 (FY 2024).

The Bill also reduces the total annual amount of available STO tax credits from \$20.0 million to \$17.0 million for the calendar year beginning January 1, 2024, and to \$14.0 million for calendar years beginning on or after January 1, 2025.

Division III — Education Savings Accounts — Administration of Funds. Iowa Code section 257.11B, as enacted by 2023 Iowa Acts, HF 68, section 7, specifies that moneys remaining in a pupil's account upon conclusion of the fiscal year must remain in the pupil's account for the payment of qualified educational expenses in future fiscal years during which the pupil participates in the Education Savings Account Program until the pupil becomes ineligible under the Program or until the remaining amounts are transferred to the General Fund. The Bill provides that the remaining moneys are available for future consecutive fiscal years during which the pupil participates in the Program. The Bill further provides that if moneys remain in a pupil's account upon conclusion of the fiscal year and the pupil does not participate in the Program during the immediately succeeding fiscal year, the Department of Education (DE) or a third-party entity (TPE) must close the pupil's account in the Fund and transfer any remaining moneys in the account to the General Fund.

The Bill also amends the Education Savings Account Program under Iowa Code section 257.11B by providing that if, prior to the end of the required attendance period of the school year, a pupil who receives an education savings account payment withdraws from enrollment in a nonpublic school or is expelled, the nonpublic school must notify the DE or a TPE in writing of a pupil's withdrawal or expulsion. Under the Bill, upon receipt of a notice of expulsion, the DE or TPE must cease disbursements of remaining moneys in the pupil's account, close the pupil's account in the Fund, and transfer any remaining moneys in the account for deposit in the General Fund. Additionally, upon receipt of a notice of withdrawal and a determination that the pupil did not enroll in a different nonpublic school in Iowa for the remainder of the school year, the DE or TPE must cease disbursements of the remaining moneys in the pupil's account in the Fund, close the pupil's account, and transfer any moneys remaining in the pupil's account for deposit in the General Fund.

Division III takes effect upon enactment and applies retroactively to January 24, 2023.

Division IV — Nonpublic School Pupil Textbook Services. Iowa Code section [301.1](#) authorizes each school board to adopt textbooks for its school district; to contract for and buy textbooks and other necessary school supplies at contract prices; and to sell textbooks to the pupils of their respective districts at cost, loan textbooks to such pupils for free, or rent textbooks to pupils for a fee fixed by the board. In addition, Iowa Code sections 301.1(2) and 301.1(3) provide that textbooks adopted and purchased by a school district must, to the extent funds are appropriated by the General Assembly, be made available to pupils attending accredited nonpublic schools upon request of the pupil or the pupil's parent under comparable terms as made available to pupils attending public schools. The Bill strikes those provisions relating to a school district making such textbooks available to pupils attending nonpublic schools.

Division IV takes effect July 1, 2025 (FY 2026).

Division V — Education Savings Accounts Corrections. Division V corrects errors and omissions in Iowa Code section 257.11B, as enacted by 2023 Iowa Acts, HF 68, section 7.

Division V takes effect upon enactment and applies retroactively to January 24, 2023.

Background

House File 68 established the Education Savings Account Program and was enacted on January 24, 2023.

- Under HF 68, parents who enroll their eligible children in an accredited nonpublic school receive an amount equal to the per pupil funds allocated by the State to all public-school districts each year.
- The funds are estimated at \$7,635 per pupil for the FY 2024 school year and will be deposited in education savings accounts to be used for tuition, fees, and other qualified educational expenses.
- Payments received by a taxpayer from an education savings account are not taxable for Iowa individual income taxation.

Assumptions

- Taxpayers do not report expense categories when claiming the tuition and textbook tax credit.
- Expenses used to calculate tuition and textbook tax credits will impact the fiscal year after the tax year in which the expenses were incurred (e.g., TY 2023 expenses are reported and impact revenue received in FY 2024).

- The following percentages of tuition and textbook tax credit projected claims under current law will no longer be eligible for the credit:
 - FY 2024: 10.0%
 - FY 2025: 14.0%
 - FY 2026 – FY 2029: 27.0%
- The tuition and textbook tax credit is nonrefundable, and not all taxpayers will have sufficient tax liability to fully utilize the credit.
- The school surtax will decrease estimated tax liability by 2.5% of the estimated change in tax liability resulting from the estimated decrease in tuition and textbook tax credit claims and the decrease in the STO tax credit annual cap.
- Taxpayers' contributions to STOs are not affected by the implementation of the Education Savings Account Program.
- The STO tax credit is nonrefundable, and not all taxpayers will have sufficient tax liability to fully utilize the credit.
- The changes to the administration of the education savings accounts will not result in any additional administrative fiscal impact since the changes will be part of the implementation process.
- The number of pupils who will stop participating in the Education Savings Account Program and when the pupils will stop is unknown since data is not available to estimate the behavior of pupils under the Program.
- The General Fund annual appropriation for Nonpublic Textbook Services will remain at the estimated FY 2023 amount of \$852,000 if the Bill is not enacted and will be eliminated if the Bill is enacted.

Fiscal Impact

[Senate File 572](#) would not have a direct fiscal impact on public school districts or Area Education Agencies and is expected to have the following estimated impact on the General Fund and school surtax:

Division I would lower the tuition and textbook tax credit amount claimed since the part of the educational expenses that is paid from an education savings account would not qualify for the credit. The decrease in tax credit claims would increase net General Fund revenue by the following estimated amounts:

- FY 2024 — \$2.5 million
- FY 2025 — \$3.6 million
- FY 2026 — \$7.0 million
- FY 2027 — \$6.8 million
- FY 2028 — \$6.8 million

The smaller tuition and textbook tax credit amount claimed in **Division I** would also result in the following increase to school surtax revenue:

- FY 2024 — \$63,000
- FY 2025 — \$89,000
- FY 2026 — \$174,000
- FY 2027 — \$169,000
- FY 2028 — \$169,000

Division II would result in the following estimated increase in net General Fund revenues as a result of the reduction in the STO tax credit annual cap:

- FY 2024 — \$0
- FY 2025 — \$2.1 million
- FY 2026 — \$4.9 million
- FY 2027 — \$5.7 million
- FY 2028 — \$5.9 million

The smaller STO tax credit annual cap amount would also result in the following increase to school surtax revenue:

- FY 2024 — \$0
- FY 2025 — \$52,000
- FY 2026 — \$120,000
- FY 2027 — \$139,000
- FY 2028 — \$143,000

Division III would not result in any additional administrative fiscal impact since the changes would be part of the implementation process. The amount of funds returned to the General Fund as a result of pupils no longer participating in the Education Savings Account Program cannot be determined since data is not available to estimate the behavior of pupils under the Program.

Division VI would result in an annual decrease in General Fund expenditures of \$852,000 beginning with FY 2026 due to the elimination of the Nonpublic Textbook Services appropriation.

Division V provides technical corrections and does not have a fiscal impact.

Sources

Department of Revenue

Department of Education

Iowa Association of School Boards

[Iowa Tax Credits Contingent Liabilities Report, March 10, 2023](#)

Legislative Services Agency appropriations tracking

/s/ Jennifer Acton

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The fiscal note for this Bill was prepared pursuant to [Joint Rule 17](#) and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.
