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## FISCAL TOPICS

Fiscal Services Division

December 28, 2022



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## Tax Credit: Administrative Tax Credits

Iowa law allows qualified taxpayers to claim several tax credits that the Department of Revenue classifies as administrative tax credits. The main purposes of each of the administrative tax credits is to make the Iowa tax system more equitable and to make tax compliance more efficient.

### Claim of Right Tax Credit — Iowa Code Section [422.5\(11\)](#)

The Claim of Right Tax Credit is an individual income tax credit that allows a qualified taxpayer to claim a tax refund for Iowa income tax paid in a previous year. The credit is available for situations where a taxpayer includes income on a tax return in one tax year and then repays that income in a subsequent tax year. To claim the credit, the taxpayer must recompute the impacted year's tax return without the income that was repaid. The taxpayer is then allowed to claim the tax difference on their next individual income tax return as a Claim of Right Tax Credit.

This tax credit was created in 1996 Iowa Acts, chapter [1166](#), and was first available for tax year 1997. A Department of Revenue [report](#) published in 2020 concluded that for tax years 2013 through 2018, the Claim of Right Tax Credit was utilized by 284 taxpayers and the total amount of tax credits claimed was \$316,900.<sup>i</sup>

### Franchise Tax Credit — Iowa Code Sections [422.11](#) and [422.33\(8\)](#)

The Franchise Tax Credit is an individual and corporate income tax credit that allows a qualified taxpayer to deduct bank franchise tax paid at the institution level if the profits from the institution flow to the taxpayer's individual or corporate income tax return as taxable income. The amount of the credit for an individual taxpayer cannot exceed the taxpayer's share of the bank's income that flows to the taxpayer's own income tax return. This tax credit ensures that the net income of a bank does not get taxed at both the institutional level (through the bank franchise tax) and at the individual owner level (through the individual or corporate income tax). The tax credit is not refundable or transferable, and unused credits do not carry forward to a future tax year.

This tax credit was created in 1997 Iowa Acts, chapter [154](#), and was first available for tax year 1997. A Department of Revenue [report](#) published in 2021 concluded that for tax years 2007 through 2019, the average annual amount of Franchise Tax Credits claimed was \$18.0 million.

### Fuel Tax Credit — Iowa Code Sections [422.110](#) and [422.111](#)

The Fuel Tax Credit is an individual and corporate income tax credit that allows a taxpayer to claim a refund of fuel tax paid on fuel where the original purchase included fuel tax but the use of the fuel was exempt from fuel tax.<sup>ii</sup> The Fuel Tax Credit may be used in place of a separate application ([Fuel Tax Refund Claim](#)) to the State for a refund of the fuel tax paid on tax-exempt fuel purchases. The tax credit is refundable but not transferable.

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### More Information

Department of Revenue Tax Credits Users' Manual:

[tax.iowa.gov/reports/tax-credits-users-manual](http://tax.iowa.gov/reports/tax-credits-users-manual)

Department of Revenue Tax Credit Evaluation Studies:

[tax.iowa.gov/reports?term\\_node\\_tid\\_depth=80](http://tax.iowa.gov/reports?term_node_tid_depth=80)

Legislative Services Agency Individual Income Tax Guide: [www.legis.iowa.gov/docs/publications/LG/711304.pdf](http://www.legis.iowa.gov/docs/publications/LG/711304.pdf)

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The Fuel Tax Credit was created in 1974 Iowa Acts, chapter [1223](#), and was first available for fuel purchased on or after July 1, 1974. A Department of Revenue [report](#) published in 2020 concluded that for tax years 2006 through 2019, the average annual amount of Fuel Tax Credits claimed through the individual and corporate income tax was \$3.7 million. The State General Fund is periodically reimbursed by the Road Use Tax Fund for the Fuel Tax Credits claimed, so the availability of the credit through the income tax process does not have a fiscal impact on the State General Fund.<sup>iii</sup>

### **S Corporation Apportionment Tax Credit — Iowa Code Section [422.8\(2\)\(b\)](#)**

The S Corporation Apportionment Tax Credit is an individual income tax credit (also applies to estates and trusts) that allows Iowa resident S corporation shareholders to apportion the income of S corporations that generate income from both Iowa and non-Iowa sources so that only the income from Iowa sources is subject to the Iowa income tax. The intended function of the tax credit is to make the taxation of S corporation income similar to how Iowa taxes C corporations. Any C corporation subject to Iowa income tax pays tax only on the portion of its income that is generated through sales in Iowa (single factor). The S Corporation Apportionment Tax Credit converts S corporation income to a single factor taxation system based only on Iowa sales. The tax credit is not transferable or refundable, and unused credits may not be carried forward to a future tax year.

This tax credit was created in 1996 Iowa Acts, chapter [1197](#), and was first available for tax year 1996. A Department of Revenue [report](#) published in 2020 concluded that for tax years 2006 through 2019, the average annual amount of S Corporation Apportionment Tax Credits claimed was \$46.1 million.

As originally enacted, the tax credit only applied to individual income tax returns but was later expanded to include estate and trust returns.

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<sup>i</sup> Instead of utilizing the Claim of Right Tax Credit, a taxpayer who has repaid income that was taxed in a previous year may choose to utilize a negative adjustment to income equal to the repaid income on their current tax return. In this instance, no tax credit is needed. The fiscal impact of any negative adjustments to income related to repaid income is not included in this **Fiscal Topic**.

<sup>ii</sup> Situations where a fuel tax refund is allowed are listed in Iowa Code section [452A.17](#).

<sup>iii</sup> The reimbursement of the State General Fund by the Road Use Tax Fund for Fuel Tax Credit claims does have an impact on the latter fund. However, the impact is due to the fuel tax exemption, not the Fuel Tax Credit.