

701—304.58(237A) Employer child care tax credit.

304.58(1) *In general—eligibility.* For tax years beginning on or after January 1, 2023, a taxpayer who has received an employer child care tax credit certificate from the economic development authority and who properly claims the federal employer-provided child care tax credit provided in Section 45F of the Internal Revenue Code may qualify for an employer child care tax credit, subject to the limitations described in Iowa Code section 237A.31, 261—Chapter 57, and this rule. The economic development authority’s rules on eligibility for the tax credit may be found in 261—Chapter 57.

304.58(2) *Definitions.* Unless otherwise indicated in this rule or required by the context, all words and phrases used in this rule that are defined under Section 45F of the Internal Revenue Code shall have the same meaning as provided to them under that section. In addition, the following definitions are applicable to this rule:

“*Internal Revenue Code*” means the Internal Revenue Code of 1986 as amended and in effect on July 1, 2022.

“*Iowa-source qualified child care expenditures*” means the qualified child care expenditures paid or incurred with respect to qualified child care facilities in Iowa.

“*Iowa-source qualified child care resource and referral expenditures*” means the qualified child resource and referral expenditures paid or incurred with respect to Iowa employees.

304.58(3) *Calculating the tax credit.*

a. Components of tax credit calculation. To calculate the tax credit, the taxpayer must determine the eligible federal credit ratio, the federal child care expenditure credit for Iowa purposes, the federal child care resource and referral expenditure credit for Iowa purposes, the Iowa share of qualified child care expenditures, and the Iowa share of qualified child care resource and referral expenditures.

b. Eligible federal credit ratio. The eligible federal credit ratio shall be calculated as follows: The sum of 25 percent of the qualified child care expenditures and 10 percent of the qualified child care resource and referral expenditures, less \$150,000, shall be divided by the sum of 25 percent of the qualified child care expenditures and 10 percent of the qualified child care resource and referral expenditures. This quotient, expressed as a percentage rounded to the nearest hundredth percent, shall be subtracted from 100 percent. The resulting percentage is the eligible federal credit ratio.

c. Federal qualified child care expenditure credit for Iowa purposes. The federal qualified child care expenditure credit for Iowa purposes shall be 25 percent of the product of the qualified child care expenditures multiplied by the eligible federal credit ratio.

d. Federal qualified child care resource and referral credit for Iowa purposes. The federal child care resource and referral expenditure credit for Iowa purposes shall be 10 percent of the product of the qualified child care resource and referral expenditures multiplied by the eligible federal credit ratio.

e. Iowa share of qualified child care expenditures. The Iowa share of qualified child care expenditures is a ratio equal to the Iowa-source qualified child care expenditures divided by the qualified child care expenditures, rounded to the nearest hundredth percent.

f. Iowa share of qualified child care resource and referral expenditures. The Iowa share of qualified child care resource and referral expenditures is a ratio equal to the Iowa-source qualified child resource and referral expenditures divided by the qualified child care resource and referral expenditures, rounded to the nearest hundredth percent.

g. Amount of tax credit. The Iowa tax credit amount shall be the lesser of the following:

(1) The amount awarded by the economic development authority.

(2) An amount equal to the sum of the following:

1. The Iowa share of qualified child care expenditures multiplied by the federal qualified child care expenditure credit for Iowa purposes, plus

2. The Iowa share of qualified child care resource and referral expenditures multiplied by the federal qualified child care resource and referral credit for Iowa purposes.

304.58(4) *Claiming the tax credit.*

a. Certificate issuance. The taxpayer must receive a tax credit certificate from the economic development authority in order to be eligible to claim the Iowa employer child care tax credit. The tax credit certificate shall include the taxpayer’s name, the taxpayer’s address, the taxpayer’s tax identification

number, the amount of the Iowa employer child care tax credit award, the tax year for which the tax credit may be claimed, and any other information required by the department. The tax credit certificate must be included with the Iowa tax return for the tax year in which the tax credit is claimed. The amount of the tax credit certificate represents the maximum amount of tax credit the taxpayer may claim.

b. Filing a claim with the department. The tax credit will be calculated and claimed on Form IA 8882. The taxpayer shall submit the form with the taxpayer's Iowa tax return for the tax year in which the tax credit is claimed. The tax credit shall be claimed for the same tax year in which the federal credit was claimed.

c. Allocation of credit to owners of a business entity or to beneficiaries of an estate or trust. If the taxpayer claiming the employer child care tax credit is a partnership, limited liability company, S corporation, estate, or trust electing to have income taxed directly to the individual, an individual may claim the credit. The amount claimed by the individual shall be based upon the pro rata share of the individual's earnings from the partnership, limited liability company, S corporation, estate, or trust.

d. Carryforward. Any tax credit in excess of the taxpayer's tax liability for the tax year is not refundable but may be credited to the tax liability for the following five years or until depleted, whichever occurs first. A tax credit shall not be carried back to a tax year prior to the tax year for which the taxpayer claims the tax credit.

e. Transferability. The credit shall not be transferred to any other person.

304.58(5) Recalculation of federal credit.

a. Federal audit. If the Internal Revenue Service reviews the taxpayer's return and disallows, in whole or in part, the federal employer-provided child care tax credit under Section 45F of the Internal Revenue Code, the taxpayer must file amended Iowa tax returns, including an amended Form IA 8882, to recalculate the Iowa credit and add back the disallowed Iowa credit to the extent not previously disallowed by the department.

b. Federal recapture event. When the taxpayer's federal employer-provided child care tax credit under Section 45F of the Internal Revenue Code is subject to a recapture event described in Section 45F(d) of the Internal Revenue Code, the Iowa credit must be recalculated by excluding from the Iowa credit calculation the percentage of qualified child care expenditures that is equal to the taxpayer's applicable recapture percentage in Section 45F(d)(2)(A) of the Internal Revenue Code. The taxpayer must file amended Iowa tax returns, including an amended Form IA 8882, to recalculate the Iowa credit and add back any ineligible Iowa credit to the extent not previously disallowed by the Internal Revenue Service or the department.

c. Authority of the department. Nothing in this rule shall limit the department's authority to review, examine, audit, or otherwise challenge an Iowa tax credit claim under Iowa Code section 237A.31, regardless of inaction, a settlement, or a determination by the Internal Revenue Service.

This rule is intended to implement Iowa Code section 237A.31.

[ARC 8201C, IAB 8/21/24, effective 9/25/24]