

701—42.9(422) Child and dependent care credit. Effective for tax years beginning on or after January 1, 1990, there is a child and dependent care credit which is refundable to the extent the amount of the credit exceeds the taxpayer's income tax liability less other applicable income tax credits.

42.9(1) Computation of the child and dependent care credit. The child and dependent care credit is computed as a percentage of the child and dependent care credit which is allowed for federal income tax purposes under Section 21 of the Internal Revenue Code. The credit is computed so that taxpayers with lower adjusted gross incomes (net incomes in tax years beginning on or after January 1, 1991) are allowed higher percentages of their federal child care credit than taxpayers with higher adjusted gross incomes (net incomes). The following is a schedule showing the percentages of federal child and dependent credits allowed on the taxpayers' state returns on the basis of the federal adjusted gross incomes (or net incomes) of the taxpayers for tax years beginning on or after January 1, 1993.

*Federal Adjusted Gross Income (Net Income for Tax Years Beginning on or After January 1, 1993)	Percentage of Federal Child and Dependent Credit Allowed for 1993 through 2005 Iowa Returns	Percentage of Federal Credit Allowed for 2006 and Later Tax Years
Less than \$10,000	75%	75%
\$10,000 or more but less than \$20,000	65%	65%
\$20,000 or more but less than \$25,000	55%	55%
\$25,000 or more but less than \$35,000	50%	50%
\$35,000 or more but less than \$40,000	40%	40%
\$40,000 or more but less than \$45,000	No Credit	30%
\$45,000 or more but less than \$50,000	No Credit	No Credit
\$50,000 or more	No Credit	No Credit

*Note that in the case of married taxpayers who have filed joint federal returns and elect to file separate returns or separately on the combined return form, the taxpayers must determine the child and dependent care credit by the schedule provided in this rule on the basis of the combined federal adjusted gross income of the taxpayers or their combined net income for tax years beginning on or after January 1, 1991. The credit determined from the schedule must be allocated between the married taxpayers in the proportion that each spouse's federal adjusted gross income relates to the combined federal adjusted gross income of the taxpayers or in the proportion that each spouse's net income relates to the combined net income of the taxpayers in the case of tax years beginning on or after January 1, 1991.

42.9(2) Examples of computation of the state child and dependent care credit. The following are examples of computation of the child and dependent care credit and the allocation of the credit between spouses in situations where married taxpayers have filed joint federal returns and are filing separate state returns or separately on the combined return form. Note that in the case of 1990 returns, taxpayers' federal adjusted gross incomes are used to compute the Iowa child and dependent credit and to allocate the credit between spouses. However, in the case of returns for tax years beginning on or after January 1, 1991, the taxpayers' net incomes are used to compute the Iowa child and dependent care credit and allocate the credit between spouses in situations where the taxpayers file separate state returns or separately on the combined return form:

EXAMPLE A. A married couple has filed a joint federal return on which they showed a federal adjusted gross income of \$40,000 or a combined net income of \$40,000 on their state return for tax years beginning on or after January 1, 1991. Both spouses were employed. They had a federal child and dependent care credit of \$600 which related to expenses incurred for care of their two small children. One of the spouses had a federal adjusted gross income of \$30,000 or a net income of \$30,000 and the second spouse had a federal adjusted gross income of \$10,000 or a net income of \$10,000.

The taxpayers' Iowa child and dependent care credit was \$180 since they were entitled to an Iowa child and dependent care credit of 30 percent of their federal credit of \$600. If the taxpayers elect to file separate Iowa returns, the \$180 credit would be allocated between the spouses on the basis of

each spouse's net income (federal adjusted gross income for 1990) to the combined net income (federal adjusted gross income for 1990) of both spouses as shown below:

$$\$180 \times \frac{\$30,000}{\$40,000} = \$135 \text{ child and dependent care credit for spouse with } \$30,000 \text{ adjusted gross income or net income for 1991 and 1992 tax years.}$$

$$\$180 \times \frac{\$10,000}{\$40,000} = \$45 \text{ child and dependent care credit for spouse with } \$10,000 \text{ adjusted gross income or net income for 1991 and 1992 tax years.}$$

Note that for tax years beginning on or after January 1, 1993, the taxpayers are not eligible for an Iowa child and dependent care credit since their combined net income is \$40,000 or more.

EXAMPLE B. A married couple has filed a joint federal return with a net income (federal adjusted gross income for 1990) of \$60,000. The taxpayers had a federal child and dependent care credit of \$960 for care of the couple's three small children which enabled the taxpayers to work. One of the spouses had a net income (federal adjusted gross income for 1990) of \$40,000 and the other spouse had a net income (federal adjusted gross income for 1990) of \$20,000.

The taxpayers' Iowa child and dependent care credit was \$96, since they are allowed an Iowa child and dependent care credit of 10 percent of their federal credit. If the taxpayers elect to file separate Iowa returns or separately on the combined return form, the \$96 credit would be allocated between the spouses on the basis of the ratio of each spouse's respective federal adjusted gross income to the combined federal adjusted gross income of both spouses or for the 1991 and 1992 tax years on the basis of each spouse's respective net income to the combined net income of both spouses as shown below:

$$\$96 \times \frac{\$40,000}{\$60,000} = \$64 \text{ child and dependent care credit for spouse with } \$40,000 \text{ adjusted gross income or net income of } \$40,000 \text{ in 1991 and 1992.}$$

$$\$96 \times \frac{\$20,000}{\$60,000} = \$32 \text{ child and dependent care credit for spouse with } \$20,000 \text{ adjusted gross income or net income of } \$20,000 \text{ in 1991 and 1992.}$$

Note that for tax years beginning on or after January 1, 1993, the taxpayers are not eligible for an Iowa child and dependent care credit because their combined net income is \$40,000 or more.

EXAMPLE C. A married couple filed a joint federal return for 1993 and filed their 1993 Iowa return using the married filing separately on the combined return form filing status. Both spouses were employed. They had a federal child and dependent care credit of \$800 which related to expenses incurred for care of their children. One spouse had a net income of \$25,000 and the other spouse had a net income of \$12,500.

The taxpayers' Iowa child and dependent care credit was \$320, since they were entitled to an Iowa credit of 40 percent of their federal credit of \$800. The \$320 credit is allocated between the spouses on the basis of each spouse's net income to the combined net income of both spouses as shown below:

$$\$320 \times \frac{\$25,000}{\$37,500} = \$213 \text{ child and dependent care credit for spouse with net income of } \$25,000 \text{ for 1993.}$$

$$\$320 \times \frac{\$12,500}{\$37,500} = \$107 \text{ child and dependent care credit for spouse with net income of } \$12,500 \text{ for } 1993.$$

42.9(3) *Computation of the child and dependent care credit for nonresidents and part-year residents.* Nonresidents and part-year residents that have incomes from Iowa sources in the tax year may claim child and dependent care credits on their Iowa returns. To compute the amount of child and dependent care credit that can be claimed on the Iowa return by a nonresident or part-year resident, the following formula should be used:

		<u>*Iowa net income</u>
Federal child and dependent care credit	×	Percentage of federal child and dependent credit allowed on Iowa return from table in subrule 42.9(1)
	×	Federal adjusted gross income or all source net income for tax years beginning on or after January 1, 1991

*Iowa net income for purposes of determining the child care credit that can be claimed on the Iowa return by a nonresident or part-year resident taxpayer is the total of the Iowa source incomes less the Iowa source adjustments to income on Form IA 126. In the case of Form IA 126 for 1990, the Iowa net income is the total on line 27 and not the all source net income on line 28. For tax years beginning after 1990, the Iowa net income may be determined from a similar line of Form IA 126 as on line 27 of the 1990 IA 126 form. However, for tax years beginning after 1990, the all source net income is used in the denominator of the formula to determine the portion of the Iowa child and dependent care credit that can be claimed on the Iowa return by a nonresident of Iowa or a part-year resident of Iowa.

In cases where married taxpayers are nonresidents or part-year residents of Iowa and are filing separate Iowa returns or separately on the combined return form, the child and dependent credit allowable on the Iowa return should be allocated between the spouses in the ratio of the federal adjusted gross income of each spouse to the combined federal adjusted gross income of the couple. For tax years beginning on or after January 1, 1991, the child and dependent care credit is to be allocated between married nonresidents or part-year residents on the basis of the net income of each spouse to the combined net income of the taxpayers.

42.9(4) *Examples of computation of the child and dependent care credit for nonresidents and part-year residents.* The following are examples of computation of the child and dependent care credit for nonresidents and part-year residents.

EXAMPLE A. A married couple lives in Omaha, Nebraska. One of the spouses worked in Iowa in 1990 and had wages and other incomes from Iowa sources that resulted in an Iowa net income of \$15,000 in the tax year. That spouse had a federal adjusted gross income or all source net income of \$20,000. The other spouse had no Iowa net income, but a federal adjusted gross income or an all source net income of \$30,000. The couple's total federal adjusted gross income or all source net income in the tax year was \$50,000. The taxpayers had a federal child and dependent care credit of \$960 which related to the expenses incurred for the care of their two young children. The taxpayers' Iowa child and dependent care credit is calculated below:

Federal child and dependent care credit	Percentage of federal child and dependent care credit allowed on Iowa return	Iowa net income
\$960	× 10% = \$96	× $\frac{\$15,000}{\$50,000}$ = \$29
		Federal adjusted gross income or all source net income
		child and dependent care credit attributable to Iowa

The \$29 Iowa child and dependent care credit is allocated between the spouses as shown below for the 1990 tax year:

$$\begin{aligned}
 \$29 \times \frac{\$20,000}{\$50,000} &= \$12 \text{ credit for spouse with } \$20,000 \text{ adjusted gross income} \\
 \\
 \$29 \times \frac{\$30,000}{\$50,000} &= \$17 \text{ credit for spouse with } \$30,000 \text{ adjusted gross income}
 \end{aligned}$$

Note that for the 1991 and 1992 tax years, the entire \$29 child and dependent care credit would be allocated to the spouse with the Iowa source net income of \$15,000, since the other spouse had no income from Iowa sources and the credit is allocated on the basis of Iowa source net income. For tax years beginning on or after January 1, 1993, no child and dependent care credit would be available for these taxpayers because their all source net income was \$40,000 or more.

EXAMPLE B. A married couple lives in South Sioux City, Nebraska. One of the spouses had an Iowa net income of \$10,000 and \$25,000 in total federal adjusted gross income. The second spouse had an Iowa net income of \$5,000 and \$15,000 in total federal adjusted gross income. The taxpayers' combined federal adjusted gross income was \$40,000. Their federal child care credit was \$480. Their Iowa child care credit is computed as follows:

Federal child and dependent care credit	Percentage of federal child and dependent care credit allowed on Iowa return	Iowa net income
\$480	× 30% = \$144	× $\frac{\$15,000}{\$40,000}$ = \$54
		Federal adjusted gross income or all source net income
		child and dependent care credit attributable to Iowa

The child and dependent care credit attributable to Iowa is allocated between the spouses on the basis of each spouse's federal adjusted gross income to the total federal adjusted gross income of both individuals for the 1990 tax year as shown below:

$$\$54 \times \frac{\$25,000}{\$40,000} = \$34 \text{ credit for spouse with } \$25,000 \text{ of federal adjusted gross income}$$

$$\$54 \times \frac{\$15,000}{\$40,000} = \$20 \text{ credit for spouse with } \$15,000 \text{ of federal adjusted gross income}$$

For the 1991 and 1992 tax years, the \$54 child and dependent care credit is allocated between the spouses in the ratio of each spouse's Iowa source net income to the combined Iowa source net income of the taxpayers as follows:

$$\$54 \times \frac{\$10,000}{\$15,000} = \$36 \text{ for spouse with Iowa source net income of } \$10,000$$

$$\$54 \times \frac{\$5,000}{\$15,000} = \$18 \text{ for spouse with Iowa source net income of } \$5,000$$

The child and dependent care credit would not be allowed for tax years beginning on or after January 1, 1993, since the taxpayers' all source income was \$40,000 or more.

EXAMPLE C. A married couple lives in Omaha, Nebraska. One of the spouses worked in Iowa and had wages and other incomes from Iowa sources or an Iowa net income of \$15,000. That spouse had an all source net income of \$18,000. The second spouse had an Iowa net income of \$10,000 and an all source net income of \$12,000. The taxpayers had a federal child and dependent care credit of \$800 which related to expenses incurred for the care of their two young children. The taxpayers' Iowa child and dependent care credit is calculated below:

Federal child and dependent care credit	×	Percentage of federal child and dependent care credit allowed on Iowa return	=	\$400	×	Iowa net income	=	\$333
\$800		50%				$\frac{\$25,000}{\$30,000}$		
						All source net income		

The \$333 credit is allocated between the spouses as shown below for the 1993 tax year:

$$\$333 \times \frac{\$10,000}{\$25,000} = \$133 \text{ for spouse with Iowa source net income of } \$10,000$$

$$\$333 \times \frac{\$15,000}{\$25,000} = \$200 \text{ for spouse with Iowa source net income of } \$15,000$$

This rule is intended to implement 2005 Iowa Code Supplement section 422.12C.