Iowa's Tuition and Textbook Tax Credit
Tax Credits Program Evaluation Study

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Preface

Iowa Code Section 2.48 requires certain state agencies, including the Department of Revenue, to review a schedule of tax expenditures each year and file a report with the legislature. Each review is required to assess the tax expenditure's equity, simplicity, competitiveness, public purpose, adequacy, and extent of conformance with the original purpose of the enacting legislation. A review may also include recommendations for better aligning a tax expenditure with the original intent of the enacting legislation. The Tuition and Textbook Tax Credit is scheduled for review in 2022. An evaluation study of the Tuition and Textbook Tax Credit was completed in 2012 and 2017. This study updates the information about claims and claimants provided in those earlier studies and provides economic analysis.

As part of the evaluation, an advisory panel was convened to provide input and advice on the study's scope and analysis. We wish to thank the members of the panel:

Kassandra Cline	Department of Education
Liesl Eathington	Iowa State University
Brent Kreider	Iowa State University
Thomas Mayes	Department of Education
Shawn Snyder	Iowa Association of School Boards
Trish Wilger	Iowa Alliance for Choice in Education

This study and other evaluations of Iowa tax credits can be found on the evaluation study web page on the Iowa Department of Revenue website.

I. Introduction

The Iowa Tuition and Textbook Tax Credit is available to individual taxpayers who have one or more dependents receiving private instruction, as defined in Iowa Code section 422.12(1), or attending grades K-12 in an accredited Iowa school. Tuition and Textbook Tax Credits do not require an award from a government agency. Taxpayers can claim the credit, when eligible, on their individual income tax return. Tuition and Textbook Tax Credits may not be sold, traded or otherwise transferred to a second party. For Tuition and Textbook Tax Credits claimed by married taxpayers who file separately on a combined return, the Tuition and Textbook Tax Credit must be claimed by the spouse who claims the dependent on the return. Tuition and Textbook Tax Credits are nonrefundable and unused credits may not be carried forward. This is the third evaluation study completed on the Tuition and Textbook Tax Credit.

II. Executive Summary

A. Iowa and Other State Tuition and Textbook Benefit Programs

- For the period of this study, the Tuition and Textbook Tax Credit has been a nonrefundable credit of 25 percent of the first $1,000 of eligible expenses for a maximum $250 credit per eligible dependent. The definition of "textbooks and tuition" includes non-public school tuition, books, materials, and equipment for extracurricular activities.

- Iowa is not exclusive in providing tax incentives for educational expenses incurred prior to higher education. Eight other states offer some form of either a tax credit or deduction.

- A School Tuition Organization Tax Credit is available in Iowa, equal to 75.0 percent of the amount of a voluntary cash or noncash contribution made by a taxpayer to a School Tuition Organization (STO).

B. Historical Tuition and Textbook Tax Credit Claims (1999 – 2020)

- During the 2020-21 school year, a total of 516,848 students attended accredited public and private elementary and secondary schools in Iowa.

- Public school enrollment decreased by an average of 0.5 percent per year from 1999 through 2010 before increasing by an average of 0.4 percent from 2010 through 2019 before decreasing 1.2 percent in 2020 associated with the pandemic.

- Since 2016, the count of claims has consistently decreased from nearly 118,000 to just over 104,500 in TY 2020. Likewise, the amount of credit awarded steadily decreased from approximately $15.5 million in TY 2015 to $14.0 million in TY 2020.

C. Characteristics of Tuition and Textbook Tax Credit Claimants

- For tax year 2020, the most recent complete tax year, 118,348 households claimed a total of $15.5 million in TTC. The average TTC claim in 2020 was $134 per household.

- The largest number of households (39,181) claiming TTC reported two qualifying dependents. These households accounted for the largest share of dependents for which credits were claimed, at 41.9 percent, and the largest dollar share of credits claimed, at 36.0 percent.

- In tax year 2020, 10,453 households, or 10.0 percent of all claimants claimed the maximum credit of $250 for each qualifying dependent. Households receiving maximum credits had 18,566 dependents, or 9.9 percent of all dependents. Since 2010, when the share of households claiming the max credit was 7.2 percent, the share of households claiming the maximum credit per dependent has increased nearly each year, to 10.0 percent in 2020.

- On average, in tax years 2010-2020, married households filing separately on a combined return made up the largest share of the number of TTC claims (67.2 percent), followed by head of household (18.5 percent), married joint (11.9 percent) and single filers (1.5 percent).

D. Tuition and Textbook Tax Credit Claims by School District

- Across the state, 34.8 percent of taxpayers identified with qualifying dependents claimed a Tuition and Textbook Tax Credit in tax years 2010-2020.

- Comparing utilization rates across the school districts in existence for the 2020-2021 school year reveals significant variation. The utilization rate ranges from 8.4 percent in the Corning School District to 57.4 percent in the Pella School District. Over one-half of households with qualifying dependents claimed the credit in 11 school districts while less than one-fifth made claims in 15 school districts.

- Average TTC claims from TY 2010-TY 2020 among school districts ranged from $1,089 in the Hamburg School District to $884,874 in the Des Moines School District. In tax years 2010-2020, the Des Moines, Cedar Rapids, and Davenport school districts were the three largest school districts in the state based on the number of eligible households. These three districts ranked as the top three districts in terms of TTC claims and comprised three of the top districts in terms of count of claims.

- Pella School District had the highest utilization rate in the state with 57.4 percent of households with qualifying dependents making TTC claims. All of the top ten school districts by utilization had utilization rates over 50 percent.

D. Tuition and Textbook Tax Credit Analysis

- The impact of the TTC to individual's income tax liability varied depending upon the adjusted gross income (AGI) group to which they belong. While results do conclude that as an individual's AGI increases, both their TTC claim amount increases and their differential in total tax liability, their percent change in tax liability does not.

- Five different policy scenarios are examined for changes in tax liability under different permutations of the TTC.

  - Under the first scenario (increase the credit rate from 25 percent of first $2,000 of qualified expenses to 50 percent of first $2,000 of qualified expenses). It is estimated that 88.8 percent of taxpayers will see no change to their taxes. The estimated average tax liability decrease per TTC claimant in TY 2023 is $206 but the average decrease is estimated to rise with income from about $50 at the lowest income level up to $470 for individuals with an AGI above $1.0 million.

  - Under the second scenario (increase the credit rate from 25 percent of first $2,000 of qualified expenses to 100 percent of first $2,000 of qualified expenses). It is estimated that 88.9 percent of taxpayers will see no change to their taxes. The estimated average tax liability decrease per TTC claimant in TY 2023 is $551, but the average decrease is estimated to rise with income from about $85 at the lowest income level up to $1,412 for individuals with an AGI above $1.0 million.

  - Under the third scenario (increase the credit rate from 25 percent of first $2,000 of qualified expenses to 25 percent of the first $4,000 of qualified expenses). It is estimated that 98.8 percent of taxpayers will see no change to their taxes. The estimated average tax liability decrease per TTC claimant in TY 2023 is about $639, but the average decrease is estimated to rise with income from about $133 at the lowest income level up to $977 for individuals with an AGI above $1.0 million.

  - Under the fourth scenario (revise the credit from a nonrefundable 25 percent of first $2,000 of qualified expenses to a refundable 25 percent of the first $2,000 of qualified expenses). It is estimated that 91.0 percent of TTC claimant will see no change to their taxes. $287, but the average decrease is estimated to vary with income from about $265 at the lowest income level up to $573 for individuals with an AGI between $500,000 to $1.0 million.

  - Under the fifth scenario (elimination of the TTC from the Iowa Tax Code). It is estimated that 88.2 percent of taxpayers will see no change to their taxes. The estimated average tax liability increase per TTC claimant in TY 2023 is about $223, but the average increase is estimated to increase with income from about $94 at the lowest income level up to $470 for individuals with an AGI above $1.0 million.

III. History of the Tuition and Textbook Tax Credit

A. Credit Enacted

Beginning in 1987, taxpayers who itemized deductions on their State income tax returns could deduct up to $1,000 in eligible education expenses per dependent, while taxpayers who took the standard deduction could claim a nonrefundable tax credit equal to five percent of the first $1,000 in eligible expenses per dependent. Expenses must be incurred for dependents attending kindergarten through 12th grade at an Iowa school, accredited under Iowa Code section 256.11, not operated for profit, and adhering to the provisions of the U.S. Civil Rights Act of 1964.[1] Taxpayers with federal adjusted gross income of $45,000 or more could not claim either the itemized deduction or the tax credit. Married couples were required to combine their incomes in considering the $45,000 limitation, even if filing separately. In the case of divorced parents, only the spouse claiming the dependent credit could claim expenses for that dependent. Eligible education expenses included tuition and fees; however, expenses for extracurricular activities were not originally eligible for the deduction or the tax credit.

B. Legal Challenges

In 1992, Iowa’s Tuition and Textbook Tax Credit program faced a legal challenge over whether the credit was constitutional. In the case of *Luthens v. Bair*, the plaintiffs argued that the credit program favored religious schools over public schools and discriminated against parents of children attending non-accredited schools. They further argued that the credit program allowed for government entanglement with religion because the law excludes expenses relating to “the teaching of religious tenets, doctrines or worship”; their argument was that IDR would have to monitor and inspect school activities to ensure that the law was not violated.

The District Court found that the credit did not favor one type of school over another as the credit was available to all parents incurring education expenses regardless of whether their children attended public, private sectarian, or private non-sectarian schools. Also, the benefits of the credit were viewed as being distributed to the parents themselves and not to the schools. In addition, the court ruled that the credit program did not violate the rights of parents as the credit provision encouraged students to attend accredited schools that meet state education requirements, which is a valid government interest. Finally, the court ruled that provisions in the Iowa Administrative Rules provided for a proration of the credit based on time spent in religious classes versus time spent in all classes, and no monitoring by IDR was necessary. Therefore, Iowa's TTC was upheld by the District Court.

C. End of Itemized Deduction and Expansion

In 1996, the itemized deduction option was discontinued and the Tuition and Textbook Tax Credit was made available to all taxpayers with eligible expenses. The tax credit percentage was increased from five percent to ten percent of the first $1,000 of eligible expenses per dependent and the $45,000 income restriction was eliminated.

Soon after the 1996 legislation became law, the Iowa Catholic Conference initiated a campaign to expand the tax credit even further. The Catholic Conference's proposal was to increase the maximum credit from $100 per dependent (10 percent of the first $1,000 of eligible expenditures) to $500 per dependent in grades kindergarten through 8 and $1,000 per dependent enrolled in high school. Their proposal would also have made the credit refundable.

The proposal to change the TTC advanced through the 1997 Iowa Legislature. However, concerns about the bill's cost resulted in the bill being held over into the 1998 legislative session.

In 1998, legislation was passed and signed into law which increased the tax credit percentage from ten percent to 25 percent of the first $1,000 of eligible expenses. The definition of "textbooks and tuition" was expanded to include books and materials for extracurricular activities. However, the tax credit remained nonrefundable, meaning it can only be used to offset current tax year liability, and there is no carry-forward provision.

D. Most Recent Changes

In 2021, the credit was increased to 25 percent of the first $2,000 of expenditures per dependent, and was further modified to allow expenditures related to dependents receiving private instruction. The 2021 modifications are not reflected in this study as the reportable data is as yet unavailable.

Eligible expenses include costs for personnel, buildings, equipment, textbooks, and other expenses for subjects legally and commonly taught in Iowa's public elementary and secondary schools as well as books and materials for extracurricular activities, such as sporting events, music, drama or speech events, driver's education, or programs of a similar nature. Expenses relating to the teaching of religious doctrines, tenets, or worship, are not eligible, nor are expenses related to home schooling, tutoring, or schooling outside of an accredited school eligible for the credit.

IV. Federal and Other State Programs Comparisons

Iowa is not exclusive in providing tax incentives for educational expenses incurred prior to higher education. Eight other states offer some form of either a tax credit or deduction.

Alabama offers a refundable tax credit to taxpayers who transfer their children enrolled in or assigned to a failing public school to a non-failing public or private school. Alabama defines a public school as failing if it meets one or more of the following requirements: The school is labeled as persistently low-performing by the Alabama State Department of Education; the school is designated as a failing school by the state Superintendent of Education; the school does not exclusively serve a special population of students; or the school has been listed three or more times during the most recent six years in the lowest 6 percent of public K–12 schools on the state standardized assessment in reading and math. Taxpayers can claim a tax credit worth the lesser of either 80 percent of the average annual state cost of attendance for a K–12 public school student during the applicable tax year, or their children's actual cost of attending school. If the taxpayer's liability is less than the total credit allowed, they may receive a rebate equal to the amount of the unused credit. Taxpayers who transfer their children from failing public schools to non-failing public or accredited private schools are eligible, as-well-as taxpayers with children who are starting school for the first time and zoned to attend a failing public school.

Illinois allows individuals to claim a tax credit for educational expenses for dependent students attending a public, private or home school. Taxpayers can claim a tax credit worth 25 percent of their K–12 education expenditures after the first $250 spent, up to a maximum credit of $750 per household. To qualify for the maximum credit of $750, taxpayers must meet the expenditure limit of $3,250 on educational expenses. Educational expenses must be for students who are residents of Illinois, who are younger than 21 and attend K-12 in a public, private or home school in Illinois. Qualified expenses include tuition, books and lab or activity fees. Beginning in 2018, Illinois imposed an income limit for the tax credit. Married families with an AGI exceeding $500,000, as well as non-married families with an AGI of $250,000, are no longer eligible for the credit.

Indiana's Private School/Homeschool Deduction program is a tax deduction for individuals who make educational expenditures for private schools or home schooling on behalf of their dependent children. The tax deduction is worth up to $1,000 per child. Households can utilize tax deductions for multiple children. Deductions are available for taxpayers' expenditures on either private schools or homeschooling for their dependent children, including tuition, textbooks, fees, software, tutoring and supplies.

Louisiana Elementary and Secondary School Tuition Deduction is open to any taxpayer who has private schooling expenses, including private school tuition and fees, uniforms, textbooks, curricular materials, lab schools, and any supplies required by the school. The deductions are worth 100 percent of the total amount spent on tuition, fees and other eligible expenses at private schools. Taxpayers may deduct up to $5,000 per child. Deductions are worth 100 percent of the total amount spent on tuition, fees and other eligible expenses at private schools. All K–12 Louisiana private school students are eligible. Any taxpayer that has private school educational expenses may claim the deduction.

Minnesota has two tax incentive programs for education expenses. First, Minnesota provides a tax deduction covering educational expenses for students in any public, private or home school, including in North Dakota, South Dakota, Iowa or Wisconsin. Eligible expenses reduce a family's taxable income when taxes are filed. The tax deduction is worth 100 percent of the amount spent on education, up to $1,625 per child in grades K–6 and $2,500 per child in grades 7–12. The tax deduction lowers a family's taxable income and covers books, tutors, academic after-school programs and other educational expenses, including tuition payments at private schools.

Minnesota's second tax incentive program provides a tax credit covering educational expenses including tutoring, educational after-school programs and books for students in any public, private or home school, including in North Dakota, South Dakota, Iowa, or Wisconsin. The tax credit is worth 75 percent of the amount spent on educational expenses other than tuition. The maximum credit amount that a family may claim is equal to $1,000 per child in the family. The tax credit reduces the family's total tax liability and covers books, tutors, academic after-school programs and other non-tuition educational expenses.

The refundable tax credit is phased out for taxpayers who earn more than $33,500. For families with one child, the maximum allowable credit is reduced by $1 for every $4 of income above $33,500, and the family may not claim the credit at all if its income is above $37,500. For families with two children, the maximum allowable credit is reduced by $2 for every $4 of income above $33,500, and, again, the family may not claim the credit if its income is above $37,500. For families with more than two children, the phase-out is still $2 for every $4 of income above $33,500, but the $37,500 income ceiling is raised by $2,000 for each child after the first two. For example, a family with four children may not claim the credit if its income is more than $41,500.

Ohio also has two tax incentive programs for education expenses. First, Ohio provides a tax credit of up to $250 for qualifying home education expenses, including books, supplementary materials, supplies, computer software, applications or subscriptions. Ohio provides a nonrefundable tax credit of up to $250 for qualifying home education expenses, including books, supplementary materials, supplies, computer software, applications or subscriptions. All Ohio students who are excused from the state's compulsory attendance law for the purpose of home instruction are eligible to receive the tax credit.

The second tax incentive that Ohio provides is a tax credit of up to $500 or $1,000, depending on household income, for tuition paid for one or more dependents to attend a non-chartered private school. Families are eligible if their total annual household income is less than $100,000. Ohio provides a tax credit of up to $500 for families with a total annual household income of less than $50,000 for tuition paid for one or more dependents to attend a non-chartered private school. For families with a total annual household income that is between $50,000 and $100,000, the tax credit is worth up to $1,000. Families are eligible to receive the tax credit if at least one of their dependents is enrolled in a non-chartered private school and their total annual household income is less than $100,000.

The South Carolina Refundable Educational Credit for Exceptional Needs Children is a refundable tax credit program, for what they paid out of pocket for private school tuition. Parents or guardians receive a tax credit worth the lesser of $11,000 per student or their children's actual cost of attending school. However, if the student receives an Educational Credit for Exceptional Needs Children Fund scholarship, then the credit claimed may equal only the difference of $11,000 or the cost of tuition, whichever is lower, and the amount of the tax credit-funded scholarship. The total cap on the program is $2 million.

Wisconsin provides an income tax deduction for individuals who pay private school tuition for their dependent children. It has no income limit, and taxpaying families can apply for an individual tax deduction after paying for K–12 private school tuition. The tax deduction is worth up to $4,000 per child in grades K–8 and up to $10,000 per child in grades 9–12. The deduction may not be applied for tuition paid for by a voucher or a college savings account, nor may it be used for fees, transportation or room and board. Any Wisconsin taxpayer enrolling their children in an approved private school is eligible. Approved private schools must provide at least 875 hours of instruction per year in a sequentially progressive curriculum including reading, language arts, math, social studies, science and health.

V. Literature Review

The Iowa Tuition and Textbook Tax Credit is not confined to just tuition and textbook expenses but also to resources that a student would require for extracurricular activities such as sports, music, the arts, and debate. This evaluation study finds that approximately 90 percent of Iowa Tuition and Textbook Tax Credit claimants are utilizing this credit for school supplies and possibly extracurricular activity equipment. Therefore, this literature review is going to focus on the availability, benefits, and affordability of extracurricular activities in the United States.

It is the policy of the Iowa Department of Education that no Iowa student enrolled in a public school be excluded from participation in or denied the benefits of course offerings and related activities due to the student's or the student's parent's or guardian's financial inability to pay a fee associated with the class, program, or activity. There are no expressly authorized fees related to extracurricular activities and therefore charging fees to participate is prohibited in the State of Iowa.

There are numerous reports on the benefits of participation in extracurricular activities by students. As public and non-public school systems in the US come under greater pressure regarding their budgets and commitment to academic success, the necessity of extracurricular activities in schools has been called into question (Israel, 2013; Vukic & Zrilic, 2016). When a school district is faced with limited resources such as instructional time, finances, and staff, school administrators must decide whether extracurricular activities are a worthwhile investment (Israel, 2013; Vukic & Zrilic, 2016).

According to a study by Morse, Anderson, Christenson, and Lehr (2004), student engagement is defined as the participation in school activities and the student's identification with school while accepting school values. They further define student's identification as obtaining a sense of belonging and safety security at school, maintaining social commitments, and creating comfortable relationships with teachers to the extent which the student values school success. School-related extracurricular activities such as sports, music programs, and community service projects foster environments where students are able to formulate strong identifications with school (Miller, 2016). As stated before, a strong identification with school reduces school dropout rates and increases school engagement characteristics for at risk adolescent students (Miller, 2016).

Some studies suggested the impacts that extracurricular activities have on at-risk students are positive (Miller, 2016), and other studies suggested they were negative (Miller, 2016). Research finds that parental involvement, socio-economic status, and motivations are key factors in the success of children's academic performances. However, there are studies concluded extracurricular activities have the most influential impact on attitudes towards school and academic achievement amongst at-risk students (Miller, 2016). Research shows that household income is a significant predictor of whether a child participates in an extracurricular activity. However, as mentioned earlier in this literature review, Iowa cannot exclude students from participation in extracurricular activities based upon financial needs.

Charging students to play makes it easier for the schools to offer the activity because they are receiving an income. However, making students pay will decline the participation rate, especially for the children who can't afford it. Paying to play prevents a lot of students in poverty from being able to participate (Hoff & Mitchell, 2006). There are many factors that limit participation in extracurricular activities, but one key factor is the costs. Costs for activities vary and are used for uniforms, equipment, coaches, referees, and locations to play. It is especially difficult for low-income families to meet these needs. Activity fees that exceed $300 causes the participation rate in school activities to drop by a third or more (Burkhardt, 2016).

According to a survey by the University of Michigan C. S. Mott Children's Hospital (2012), 61 percent of middle and high school students in the US were charged a pay-to-play fee. According to survey results, the average fee was $93. It was found that 21 percent of parents were charged a participation fee of $150 or more. According to a report by Snellman, Silva, and Putnam (2015), these numbers do not include the cost of equipment, uniforms, and additional fees like travel, which raise the average cost to $381. These survey results are not reflective of Iowa's statute against pay-to-play policies.

The fees identified in the Michigan survey disproportionately hinder children from families who earn less than $60,000 per year, as 19 percent of these households reported that their children's participation dropped because of the cost (Snellman, Silva, and Putnam, 2015). On the other end of the spectrum, among households earning more than $60,000 per year, only 5 percent reported lower participation due to increased costs (Snellman, Silva, and Putnam, 2015).

There are many negative effects for children living in poverty and joining extra activities is one of them. Parents who work are more likely to allow their child to participate in activities rather than a family who only has one or no parent working (Barnett, 2008). Families living in poverty cannot afford the extra costs for extra activities, and as a result, it can have negative effects on the child's health. Extracurricular activities help to promote physical, mental, emotional, and social wellness. Children that live in poverty miss out on the health benefits because they cannot afford to participate. Extracurricular activities have many great benefits and unfortunately research has shown that families living in poverty are less likely to provide these opportunities to their children (Burkhardt, 2016).

VI. Analysis of Iowa Tuition and Textbook Tax Credit Claims

A. Historical Tuition and Textbook Tax Credit Claims (1999 – 2020)

Historical data show large increases in both the number of TTC claimed and the amount of credits claimed from 1999 through 2007 (see Figures 1 and 2). An observable plateauing with slight variation occurs from 2007 through 2015 in both the number of TTC claimed and the amount of credits claimed. Since 2015, there has been an observable decrease in number of TTC claims and amount of credits.

The number of TTC claims increased from 76,000 in 1999 to a high of 121,000 from 2009 through 2012 and the aggregate TTC claim amount increased from $10.3 million in 1999 to a high of $15.5 million in 2015. Since 2012, the number of claims has decreased each year to 105,000 in 2020. The amount of credits has also decreased each year since 2015 to $14.0 million in 2020. During the 2020-21 school year, a total of 516,848 students attended accredited public and non-public elementary and secondary schools in Iowa. Public school enrollment decreased by an average of 0.5 percent per year from 1999 through 2010 before increasing by an average of 0.4 percent from 2010 through 2019 before decreasing 1.2 percent in 2020. This decrease in 2020-21 may be attributed to parents choosing to pull their kids out of school due to the COVID Pandemic (see Figure 3). School enrollment trends reflect the school-age population dropping from 1999 through 2010 before increasing each year since. In contrast, non-public school enrollment has declined from 42,800 students in 1998 to a low of 32,700 in 2020, or -23.6 percent. Non-public school enrollment declined in 16 of 22 years from 1999 through 2020, for an average annual decline of 1.2 percent.

The pattern of TTC claims does not follow either public or non-public school enrollment patterns (see Figure 3). After moving to its most recent pre-2021 structure in 1998, a 25 percent nonrefundable tax credit with no income limit, taxpayer awareness drove the rise in claims over the next nine years. After that point, the plateauing suggests widespread knowledge and usage; later analysis will question that suggestion. However, in tax years 2014 and 2015, the counts of claims dipped below 120,000 while the value of claims continued to rise (Figures 1 and 2). Since 2016 the count of claims has consistently decreased from nearly 118,000 to just over 104,500 in TY 2020 (Figure 1). Likewise, the amount of credit awarded steadily decreased from approximately $15.5 million in TY 2015 to $14.0 million in TY 2020 (Figure 2).

B. Tuition and Textbook Tax Credit Claimant Characteristics

For tax year 2020, the most recent complete tax year, 104,609 households claimed a total of $14.0 million in TTC. Although taxpayers report the total number of dependents in the household (209,722), taxpayers do not indicate on the return the number of dependents with expenses for which Tuition and Textbook Tax Credits are being claimed. Dependents claimed on the Iowa individual income tax return can be of all ages while the TTC is limited to eligible expenses incurred for dependents in kindergarten through 12th grade. To determine the number of dependents in grades K-12, Iowa income tax returns were matched with federal tax return information containing the birth dates of up to four dependents. Of the total number of dependents claimed on returns with a TTC claim, 187,110 dependents (89.2 percent) were identified as elementary and secondary school age, 5 to 21, referred to as qualifying dependents (see Table 2).[1] No federal age data could be matched to 3,575 dependents, in many cases because the household had more than four dependents. It was assumed that any dependents in a household beyond four and dependents with no age data matches were between ages 5 to 21. Under these assumptions, 187,110 dependents are considered qualifying.

[1] Disabled children can attend secondary school through age 21.

The largest number of households (39,181) claiming TTC reported two qualifying dependents (see Table 3). These households accounted for the largest share of dependents for which credits were claimed, at 41.9 percent, and the largest dollar share of credits claimed, at 36.0 percent. Households with three dependents were the second largest group with 26.0 percent of dependents and 23.2 percent of credits claimed. Households with only one dependent accounted for 20.0 percent of the dependents for which credits were claimed, and 21.6 percent of TTC claims. Not surprisingly, as the number of qualifying dependents increases, the average claim per household increases. Overall, the average household TTC claim was $134. The average claim per dependent is highest for households with four or more dependents with an overall average claim per dependent of $120.

Although the taxpayer is not required to report on the tax return the expenses for which the credit was claimed or the school attended by each dependent, the size of the claim may suggest claimants whose children attend non-public school. In tax year 2020, 10,453 households, or 10.0 percent of all claimants claimed the maximum credit of $250 for each qualifying dependent (see Table 4). Because these taxpayers are claiming $1,000 in eligible expenses for each dependent, it may be the case that they are paying tuition to a non-public school.[2] The estimated 10.0 percent share is higher than the 6.4 percent share of all Iowa students who attended non-public schools during the 2020-2021 school year (Iowa Department of Education). Households receiving maximum credits had 18,566 dependents, or 9.9 percent of all dependents. Since 2010, when the share of households claiming the max credit was 7.2 percent, the share of households claiming the maximum credit per dependent has increased nearly each year, to 10.0 percent in 2020.

Given that only dependents attending an accredited Iowa school are qualifying, it is expected that the tax credit is mainly claimed by Iowa residents. Based on the Iowa county of residence reported on the tax return, 103,709 resident households claimed $13.8 million (98.8%) in credits (see Table 5). Nonresidents can claim the Tuition and Textbook Tax Credit as long as their children are attending an accredited school in Iowa. There were 896 nonresident households who claimed a total of $172,004 in TTC in tax year 2020. The nonresident claims with mailing addresses in neighboring states are broken down as follows: Illinois (85), Minnesota (56), Missouri (39), Nebraska (162), South Dakota (110), and Wisconsin (49). The other 395 nonresident returns had addresses from states not contiguous to Iowa; these could reflect taxpayers who lived in Iowa at some point during the year but had moved out of the state by December 31, 2020.

On average, in tax years 2010-2020, married households filing separately on a combined return made up the largest share of the number of TTC claims (67.2 percent), followed by head of household (18.5 percent), married joint (11.9 percent) and single filers (1.5 percent) (see Table 6). Married separate filers filing on separate returns and qualifying widow(er)s made up less than one percent of all claimants (0.9 percent and 0.1 percent). As expected, when considering the amount of TTC claimed, married taxpayers filing

[2] The average non-public school tuition in Iowa is $5,359 per year in 2022.

separately on combined returns also had the largest share of dollar claims (70.5 percent) (see Table 6). However, married joint filers had the second largest share of credit claims (15.5 percent), followed by head of household filers (12.4 percent) and single filers (0.9 percent). Married separate filers filing on separate returns and qualifying widow(er)s accounted for less than one percent of dollars claimed (0.6 percent and 0.1 percent).

Iowa taxpayers claiming the TTC are concentrated in middle- and upper-income levels, with households reporting less than $20,000 in adjusted gross income (AGI) comprising only 1.0 percent of TTC households and 0.7 percent of the dollars being claimed (see Table 7). Low-income taxpayers are exempt from public school fees, reducing qualifying expenses. These taxpayers also have less tax liability against which to claim the nonrefundable tax credit. Claimants with AGI between $20,000 and $49,999 comprised 21.6 percent of the total number of claims and 15.6 percent of the total dollars claimed. Households with AGI between $50,000 and $149,999 comprised 63.8 percent of the total number of claims and 62.7 percent of the total amount claimed. The average TTC claim rises from $76 to $230 as income rises. Because the average TTC claim rises as AGI rises, the shares of dollars claimed exceed the shares of claimants at the higher income levels (above $90,000). Households with income above $150,000 reported 13.7 percent of the number of claims and 21.1 percent of the total amount of TTC claimed. As income rises, taxpayers are able to spend more on their children's education, including the choice of non-public school.

C. Tuition and Textbook Tax Credit Claims by School District

Across the state, 34.8 percent of taxpayers identified with qualifying dependents claimed a Tuition and Textbook Tax Credit in tax years 2010-2020 (see Table 6). The utilization rate is defined as the ratio of resident households claiming the credit compared to all resident households with dependents between ages 5 and 21. The households included in the utilization rate are limited to resident taxpayers because dependents must attend an Iowa accredited school in order for a taxpayer to claim the credit. In analyzing the utilization rate by AGI, the highest rate occurred between $100,000 and $124,999 and $125,000 and $149,999 (over 50.0% for these income ranges). The lowest rates were found in the less than $20,000 group (2.4%) and the $20,000 to $29,999 income group (17.1%). Recall that many households in these low-income groups may not face any eligible expenses or may not have any Iowa tax liability against which to the claim the nonrefundable TTC.

Comparing utilization rates across the school districts in existence for the 2020-2021 school year reveals significant variation. Iowa resident taxpayers must provide their school district of residence on their individual income tax return. Although it is possible that a taxpayer may reside in one school district and their children attend school in a different district, for this analysis the taxpayer is considered in the school district of residence. The utilization rate ranges from 8.4 percent in the Corning School District to 57.4 percent in the Pella School District (see Figure 6). Over one-half of households with qualifying dependents claimed the credit in 11 school districts while less than one-fifth made claims in 15 school districts. The highest utilization rates appear to coincide with the location of non-public schools.

The top ten school districts with the highest total of TTC dollars claimed tended to be, not surprisingly, the school districts with the most eligible households, defined as any resident household with a dependent aged 5 to 21 (see Table 8). Average TTC claims from TY 2020-TY 2020 among school districts ranged from $1,089 in the Hamburg School District to $884,874 in the Des Moines School District. In tax years 2010-2020, the Des Moines, Cedar Rapids, and Davenport school districts were the three largest school districts in the state based on the number of eligible households. These three districts ranked as the top three districts in terms of TTC claims and comprised three of the top districts in terms of count of claims. Five of the other seven districts with the highest amount of claims were also in the top ten largest school districts based on eligible households. Despite these districts claiming the highest amounts of credits, only four of the top ten had utilization rates above the statewide average of 34.8 percent.

School districts were ranked by average TTC credit claim for households making claims. The average credit claimed by school district from 2010 through 2020 ranged from $38 in the Hamburg School District to $342 in the Rock Valley School District (see Table 9). The ten school districts with the highest average household claim ranked from 27th in the number of eligible households to 289th. Nearly all of these school districts had above average utilization, with only the Sheldon school district below the statewide average. Six of the school districts in the top ten based on the average household claim are located in Sioux County in Northwest Iowa.

Pella School District had the highest utilization rate in the state with 57.4 percent of households with qualifying dependents making TTC claims (see Table 10). All of the top ten school districts by utilization had utilization rates over 50 percent. Western Dubuque was the largest school district in the top ten with 1,453 eligible households and Remsen-Union, which ranked 6th by utilization rate, was the smallest district with only 326 households with qualifying dependents.

D. Tuition and Textbook Tax Credit Impact Analysis

This section of the analysis will focus on the impact that the TTC has on an individual's tax liability. Analysis was performed as to the TTCs effect on taxpayer's liability in terms of how much a taxpayers' liability is increased due to the elimination of the credit. The average impact of the TTC to an individual's income tax liability between tax year 2013 and 2018 was gathered utilizing the IDR individual income tax micro model.

Micro model

This analysis employs the IDR individual income tax micro model developed for previous Legislative sessions. The model forecasts both federal and Iowa tax liability at household level for all the Iowa individual income tax filers. Non-filers' tax liability (essentially through withholding payments) are also estimated as one category. To estimate tax liability in individual years, individual tax return data for that particular tax year are used by the model. The income components are then run through two tax calculators which reflect current law during that particular tax year and removing the Tuition and Textbook Tax Credit from the calculation of an individual's nonrefundable tax credit calculation. Tax-year impacts are converted into State fiscal-year changes using current or proposed withholding tax formulas and historical patterns of estimates, final returns, and refunds.

Claimants of the TTC are aggregated into groupings based upon adjusted gross income ranges and individual tax years between 2013 and 2018. The results will be presented in chart form to show the percent by which the TTC affects an individual's tax liability after all the deductions, non-refundable credits, and refundable credits calculations are completed.

The impact of the TTC to individual's income tax liability varied depending upon the AGI group to which they belong. While results do conclude that as an individual's AGI increases, both their TTC claim amount increases and their differential in total tax liability, their percent change in liability does not. Though claimants with an AGI between $20,000 and $30,000 only experience a differential of $71 due to the TTC, their change in tax liability due to the TTC is 24.0 percent (see table 11). TTC claimants with an AGI between $30,000 and $40,000 had the second highest percent change in tax liability due to the TTC at 10.3 percent, while the lowest percent change in tax liability was for claimants with an AGI between $125,000 and $150,000 at 2.4 percent (see table 11).

E. Tuition and Textbook Tax Credit Potential Scenarios

The following analyses presents the fiscal impacts for potential scenarios that would change the Tuition and Textbook Tax Credit. Scenarios include:

- Scenario 1: raise the Tuition and Textbook Tax Credit from 25 percent of the first $2,000 in qualified expenses for each student to 50 percent of the first $2,000 in qualified expenses for each student.
- Scenario 2: raise the Tuition and Textbook Tax Credit from 25 percent of the first $2,000 in qualified expenses for each student to 100 percent of the first $2,000 in qualified expenses for each student.
- Scenario 3: increase to 25 percent of the first $4,000 in qualified expenses for each student.
- Scenario 4: the tax credit revised from nonrefundable to refundable.
- Scenario 5: eliminate the tax credit from the Iowa Tax Code

These scenarios are assumed to be effective for tax years beginning on or after January 1, 2023.

When the State changes a tax credit from nonrefundable to refundable, some taxpayers may experience a small tax increase as a result of increased school surtax. School surtax is calculated on computed tax net of nonrefundable tax credits; thus, when a formerly nonrefundable tax credit becomes refundable, the school surtax base (computed tax net of nonrefundable tax credits) increases, resulting in a higher school surtax. For taxpayers with comparatively low tax credit claims, this results in a net tax increase.

The revisions under the proposals described in these analyses would decrease Iowa individual income tax liability and thereby decrease General Fund income tax revenues and surtax revenues.

Micro model

These analyses employ the IDR individual income tax micro model. The model forecasts both federal and Iowa tax liability at household level for all the Iowa individual income tax filers. Non-filers' tax liability (essentially through withholding payments) are also estimated as one category.

To estimate tax liability in years after 2020, individual tax return data for tax year 2020 (the most recent complete tax year data) used by the model are adjusted for estimated growth in income components and changes in the size and age distribution of the population. The income growth forecasts are based on various income projections produced by external economic models primarily from Moody's Analytics. Economic projections do not assume any specific unusual growth or recessionary periods. Population projections are based on the REMI model for the State of Iowa.

The income components are then run through two tax calculators which reflect current law and the proposal to calculate tax liability changes by tax year. Tax-year impacts are converted into State fiscal-year changes using current or proposed withholding tax formulas and historical patterns of estimates, final returns, and refunds. In the model, temporary federal law changes under TCJA expire after TY 2025. All revisions to the Iowa Tax Code during the 2022 legislative session are included in the micromodel, including the phased in flat income tax rates.

Scenario 1

Under the first scenario (increase the credit rate from 25 percent of first $2,000 of qualified expenses to 50 percent of first $2,000 of qualified expenses). It is estimated that 88.8 percent of taxpayers will see no change to their taxes. Approximately 11.2 percent of taxpayers (over 192,000) will see a decrease in tax liability, including more than 30.0 percent of taxpayers with AGI over $100,000 and less than $500,000. The estimated average tax liability decrease per TTC claimant in TY 2023 is $206, but the average decrease is estimated to rise with income from about $50 at the lowest income level up to $470 for individuals with an AGI above $1.0 million (see Table 12).

It is assumed that nearly all the higher tax credit claims would be realized when taxpayers file final returns. State General Fund revenues are estimated to drop only $0.08 million in FY 2023. This negative impact increases to $38.5 million in FY 2024, $38.3 million in FY 2025, $38.1 million in FY 2026, and then remains around $34.0 million from FY 2027 through FY 2028 (see Table 13). School surtax collections are estimated to decrease by approximately $1.1 million each tax year (author's calculations, not included in the tables).

Scenario 2

Under the second scenario (increase the credit rate from 25 percent of first $2,000 of qualified expenses to 100 percent of first $2,000 of qualified expenses). It is estimated that 88.9 percent of taxpayers will see no change to their taxes. Approximately 11.1 percent of taxpayers (over 191,000) will see a decrease in tax liability, including more than 30.0 percent of taxpayers with AGI over $100,000 and less than $500,000. The estimated average tax liability decrease per TTC claimant in TY 2023 is $551, but the average decrease is estimated to rise with income from about $85 at the lowest income level up to $1,412 for individuals with an AGI above $1.0 million (see Table 12).

It is assumed that nearly all the higher tax credit claims would be realized when taxpayers file final returns. State General Fund revenues are estimated to drop only $1.19 million in FY 2023. This negative impact increases to $101.21 million in FY 2024, $102.61 million in FY 2025, $101.86 million in FY 2026, and then remains around $89.0 million from FY 2027 through FY 2028 (see Table 13). School surtax collections are estimated to decrease by approximately $2.9 million each tax year (author's calculations, not included in the tables).

Scenario 3

Under the third scenario (increase the credit rate from 25 percent of first $2,000 of qualified expenses to 25 percent of the first $4,000 of qualified expenses). It is estimated that 98.8 percent of taxpayers will see no change to their taxes. Approximately 1.2 percent of taxpayers (over 20,000) will see a decrease in tax liability, including more than 5.0 percent of taxpayers with AGI over $175,000. The estimated average tax liability decrease per TTC claimant in TY 2023 is about $639, but the average decrease is estimated to rise with income from about $133 at the lowest income level up to $977 for individuals with an AGI above $1.0 million (see Table 12).

It is assumed that nearly all the higher tax credit claims would be realized when taxpayers file final returns. State General Fund revenues are estimated to drop only $0.03 million in FY 2023. This negative impact increases to $12.5 million in FY 2024, $12.4 million in FY 2025, $12.3 million in FY 2026, and then remains around $11.0 million from FY 2027 through FY 2028 (see Table 13). School surtax collections are estimated to decrease by approximately $0.3 million each tax year (author's calculations, not included in the tables).

Scenario 4

Under the fourth scenario (revise the credit from a nonrefundable 25 percent of first $2,000 of qualified expenses to a refundable 25 percent of the first $2,000 of qualified expenses). It is estimated that 91.0 percent of taxpayers will see no change to their taxes. Approximately 2.8 percent of taxpayers (over 48,000) will see a decrease in tax liability, including more than 5.0 percent of taxpayers with AGI under $10,000. The estimated average tax liability decrease per TTC claimant in TY 2023 is about $287, but the average decrease is estimated to vary with income from about $265 at the lowest income level up to $573 for individuals with an AGI between $500,000 to $1.0 million (see Table 12).

It is assumed that nearly all the higher tax credit claims would be realized when taxpayers file final returns. State General Fund revenues are estimated to drop only $0.02 million in FY 2023. This negative impact increases to $13.8 million in FY 2024, $14.3 million in FY 2025, $14.5 million in FY 2026, and then remains around $18.0 million from FY 2027 through FY 2028 (see Table 13). School surtax collections are estimated to decrease by approximately $1.2 million each tax year (author's calculations, not included in the tables).

Scenario 5

Under the fifth scenario (elimination of the TTC from the Iowa Tax Code). It is estimated that 88.2 percent of taxpayers will see no change to their taxes. Approximately 11.8 percent of taxpayers (nearly 203,000) will see an increase in tax liability, including more than 30.0 percent of taxpayers with AGI over $100,000 and less than $500,000. The estimated average tax liability increase per TTC claimant in TY 2023 is about $223, but the average increase is estimated to increase with income from about $94 at the lowest income level up to $470 for individuals with an AGI above $1.0 million (see Table 12).

It is assumed that nearly all the higher tax credit claims would be realized when taxpayers file final returns. State General Fund revenues are estimated to increase only $0.09 million in FY 2023. This impact increases to $43.66 million in FY 2024, $43.61 million in FY 2025, $43.39 million in FY 2026, and then remains around $38.0 million from FY 2027 through FY 2028 (see Table 13). School surtax collections are estimated to increase by approximately $1.25 million each tax year (author's calculations, not included in the tables).

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Iowa’s Tuition and Textbook Tax Credit

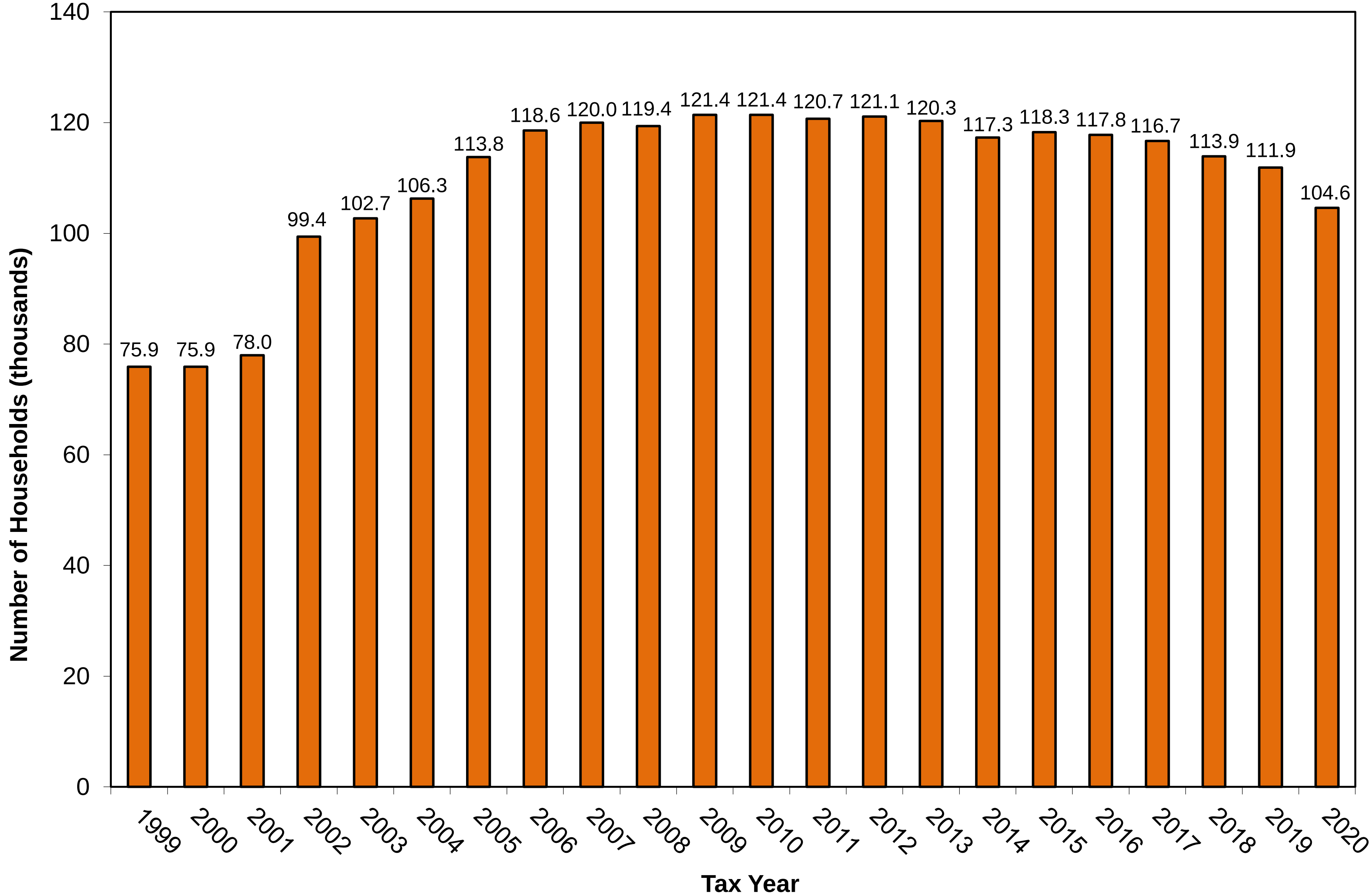
Tables and Figures

Table 1. Expenses Eligible for the Tuition and Textbook Tax Credit

Expenditure Category	Eligible Expenditures	Ineligible Expenditures
Tuition	Tuition for any K-12 school that is accredited	Any amount for food, lodging, or clothing or amounts paid relating to the teaching of religious tenets, doctrines or worship; amounts for private instruction or tutoring not paid to a school
Textbooks and Publications	Textbooks and other instructional materials used in teaching subjects legally and commonly taught in Iowa's public elementary and secondary schools, including those needed for extracurricular activities (including fees for required textbooks and supplies); computers, if required	Yearbooks or annuals; textbook fines
Clothing	Rental or purchase of “non-street” costumes for a play or special clothing for a concert not suitable for everyday wear; rental of prom dresses and tuxedos	Clothes which can be used for street wear, such as T-shirts for extracurricular events; clothing for a play or concert that is suitable for everyday wear; purchase of prom dresses and tuxedos
Driver's Education	Only if paid to the K-12 school	Paid to other than a K-12 school
Dues, Fees and Admissions	Annual school fees; fees or dues paid for extracurricular activities ; booster club dues (for dependent only); fees for athletics; activity ticket or admission for K-12 school athletic, academic, music, or dramatic events and awards banquets or buffets; fees for a physical education event such as roller skating; advanced placement fees if paid to high school; fees for homecoming, winter formal, prom, or similar events	Sports-related socials; special education programs like career conferences; special testing like SAT, PSAT, ACT and Iowa talent search tests; fees paid to K-12 schools for college credit or special programs at colleges and universities; advanced placement fees if paid to a college or a university
Materials for Extracurricular Activities	Materials for extracurricular activities, such as sporting events, speech activities, musical or dramatic events, awards banquets, homecoming, prom, and other school-related social events	Class rings
Music	Rental of musical instruments for school or band; music / instrument lessons at a school; sheet music used in a school; music books and materials used in school bands or orchestras for maintenance of instruments, including reeds, strings, picks, grease, and other consumables	Purchase of musical instruments (including rent-to-own contracts); music lessons outside of school; sheet music for private use
Religion	--------	Amounts paid are not allowed if they relate to teaching of religious tenets, doctrines, or worship
Shoes	Football, soccer, and golf shoes; other shoes with cleats or spikes not suitable for street wear for teams associated with the school	Basketball shoes and other shoes suitable for everyday wear
Supplies for Industrial Arts, Home Economics or Equivalent Classes	Cost of required basic materials for classes such as shop class, mechanics class, agricultural class, home economics class, or equivalent classes	Optional expenditures or materials used for personal projects of the dependents or for family benefit
Travel	Fees for transportation to and from school if paid to the school; fees for field trips if the trip is during school hours	Travel expenses for overnight trips which involve payment for meals and lodging
Uniforms	Band and athletic uniforms	--------

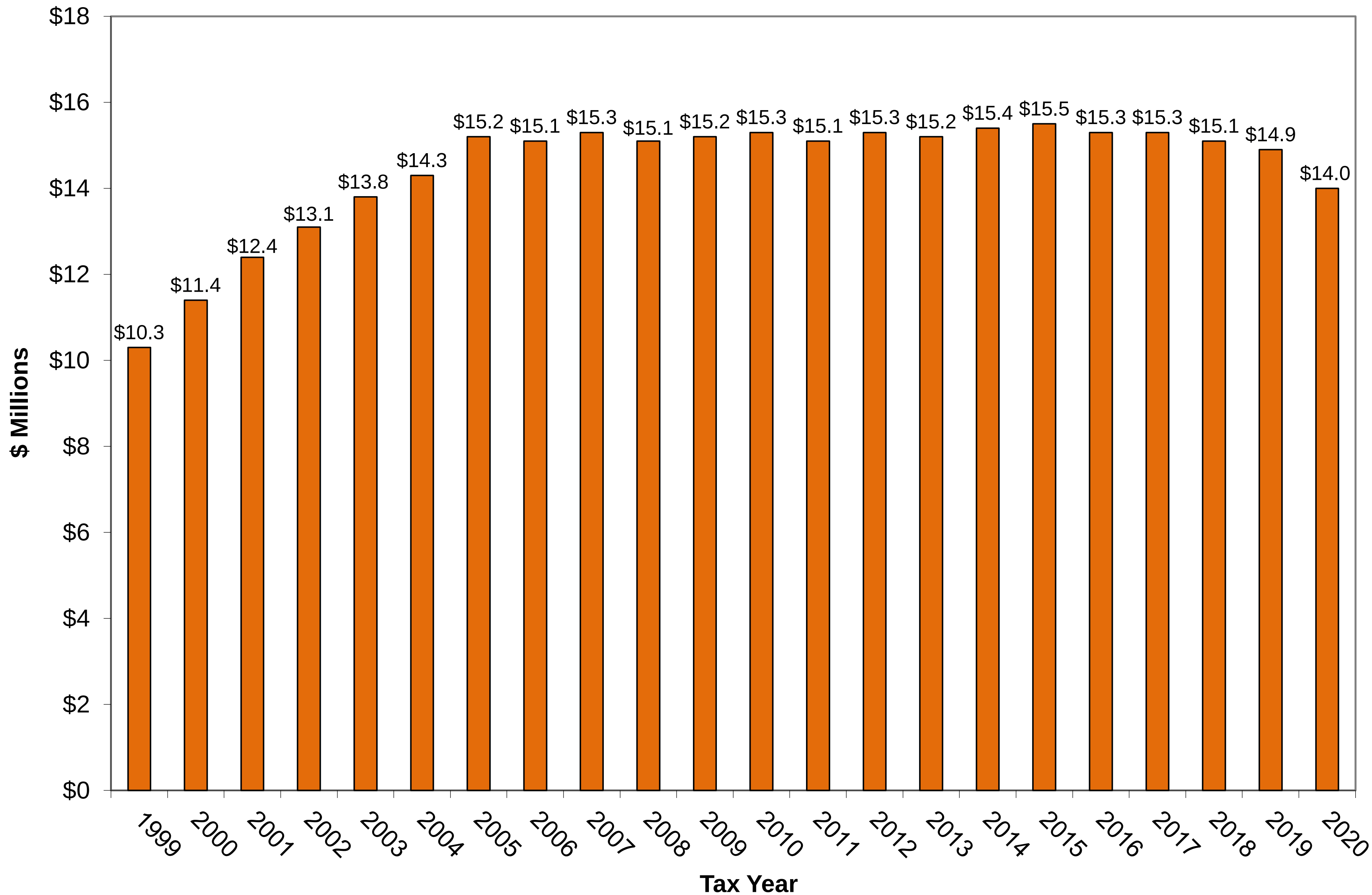
Sources: IDR individual income tax instructions and Iowa Administrative Rules Chapter 701.42.4.

Figure 1. Number of Households Claiming the Tuition and Textbook Tax Credit, Tax Years 1999 - 2020



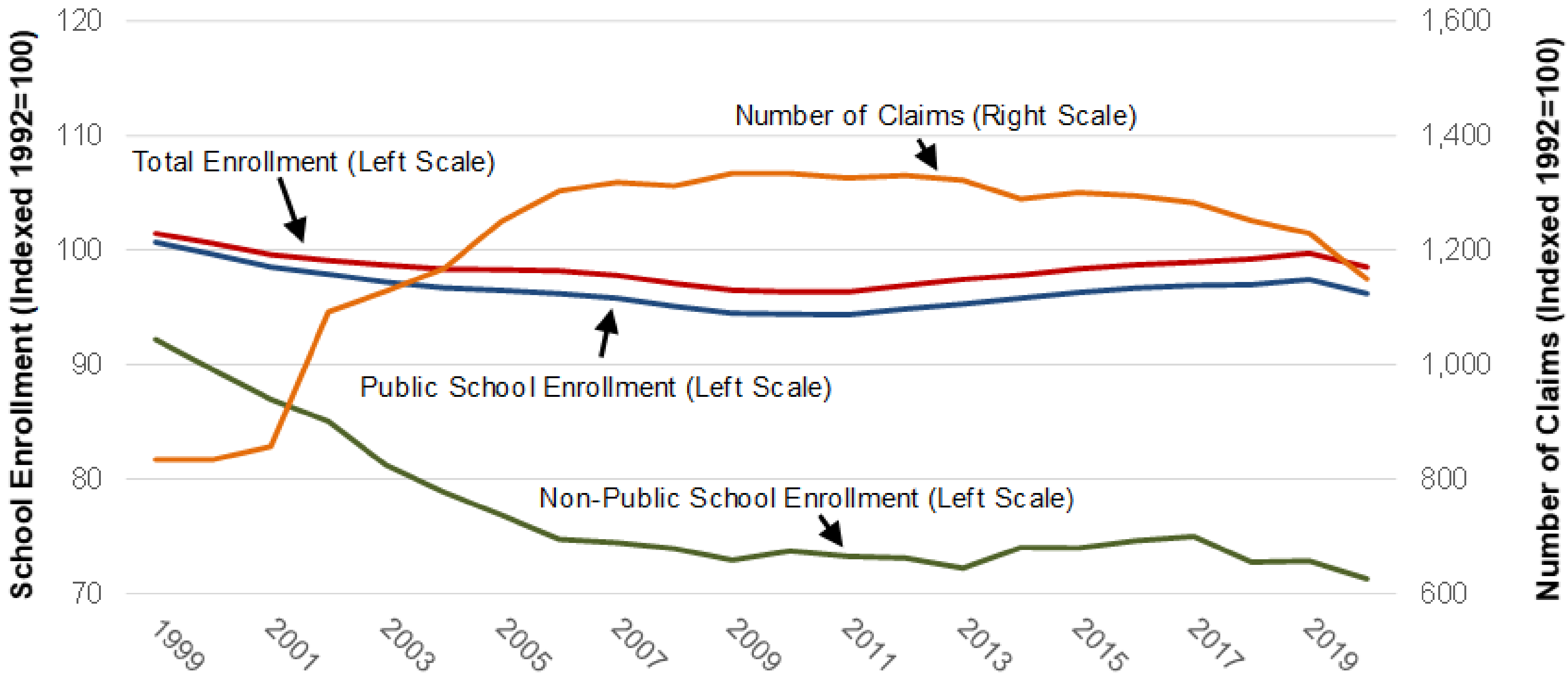
Source – IDR 1999 - 2020 individual income tax returns

Figure 2. Total Tuition and Textbook Tax Credit Claims, Tax Years 1999 – 2020



Source – IDR 1999 - 2020 individual income tax returns

Figure 3. School Enrollment and Number of Tuition and Textbook Tax Credit Claims



Source – IDR 1999 - 2020 individual income tax returns

Table 2. Age of Dependents Reported by Tuition and Textbook Tax Credit Claimants, Tax Year 2020

Age	Number of Dependents	Distribution of Dependents
5	8,337	3.98%
6	10,355	4.94%
7	11,066	5.28%
8	11,499	5.48%
9	11,925	5.69%
10	12,333	5.88%
11	13,171	6.28%
12	13,617	6.49%
13	14,090	6.72%
14	14,592	6.96%
15	14,256	6.80%
16	14,102	6.72%
17	13,789	6.57%
18	9,446	4.50%
19	5,251	2.50%
20	3,496	1.67%
21	2,210	1.05%
Subtotal	**183,535**	**87.51%**
Missing	3,575	1.70%
Subtotal	**187,110**	**89.22%**
0 to 4	20,125	9.60%
22 - 24	1,569	0.75%
25 and over	918	0.44%
Total	**209,722**	**100%**

Source: 2020 IDR and Internal Revenue Service individual income tax returns

Notes: The IRS captures birth dates for the first four dependents. In households with five or more dependents, the eligibility of the first four were verified against the IRS age data; all additional dependents were assumed to be qualified.
Dependents missing age data are assumed to be from ages 5 through 21.
The Tuition and Textbook Tax Credit was not necessarily claimed for all dependents reported by the taxpayer.

Table 3. Tuition and Textbook Tax Credit Claims by Qualifying Dependents, Tax Year 2020

Number of Qualifying Dependents	Number of Households	Number of Dependents	Distribution of Dependents	Amount of Claims	Distribution of Claims	Average Claim per Household	Average Claim per Dependent
1	37,466	37,466	20.02%	$3,020,641	21.57%	$81	$81
2	39,181	78,362	41.88%	$5,036,856	35.96%	$129	$64
3	16,241	48,723	26.04%	$3,244,635	23.16%	$200	$67
4 or more	11,721	22,559	12.06%	$2,704,505	19.31%	$231	$120
Total	104,609	187,110	100%	$14,006,637	100%	$133.90	$75

Source: 2020 IDR and Internal Revenue Service individual tax returns

Table 4. Share of Households Claiming the Maximum Tuition and Textbook Tax Credit, Tax Years 2010 - 2020

Tax Year	Total Number of Households	Total Amount of Claims (millions)	Households Claiming Maximum Credit	Number of Dependents	Share of Households Claiming Max Credit	Amount of Maximum Claims (millions)
2010	121,400	$15.3	8,686	15,546	7.2%	$3.9
2011	120,654	$15.1	8,916	15,952	7.4%	$4.0
2012	121,071	$15.3	9,346	16,698	7.7%	$4.2
2013	120,252	$15.2	9,269	16,647	7.7%	$4.2
2014	117,284	$15.4	9,411	16,759	8.0%	$4.2
2015	118,348	$15.5	9,694	17,237	8.2%	$4.3
2016	117,788	$15.3	9,608	17,106	8.2%	$2.4
2017	116,707	$15.3	9,891	17,628	8.5%	$2.5
2018	113,938	$15.1	10,058	17,949	8.8%	$2.5
2019	111,904	$14.9	10,042	17,927	9.0%	$2.5
2020	104,609	$14.0	10,453	18,566	10.0%	$2.6

Source: IDR individual income tax returns

Table 5. Tuition and Textbook Tax Credit Claims by Resident Status, Tax Year 2020

State of Residence	Number of Households	Share of Households	Amount of Claims	Share of Claims	Number of Dependents	Share of Dependents
Iowa Residents	103,709	99.14%	$13,833,882	98.77%	220,436	99.15%
Iowa (1)	4	0.00%	$751	0.01%	9	0.00%
Nonresidents						
Illinois	85	0.08%	$12,882	0.09%	181	0.08%
Minnesota	56	0.05%	$9,952	0.07%	128	0.06%
Missouri	39	0.04%	$7,237	0.05%	79	0.04%
Nebraska	162	0.15%	$37,750	0.27%	339	0.15%
South Dakota	110	0.11%	$31,641	0.23%	236	0.11%
Wisconsin	49	0.05%	$9,777	0.07%	108	0.05%
Not Contiguous to Iowa	395	0.38%	$62,765	0.45%	809	0.36%
Nonresidents Total	896	0.86%	$172,004	1.23%	1,880	0.85%
Total	104,609	100%	$14,006,637	100%	222,325	100%

Source: IDR 2020 and Internal Revenue Service individual income tax returns
(1) There were 4 returns with an Iowa address that did not report a valid Iowa county number

Table 6. Tuition and Textbook Tax Credit Claims by Filing Status, Tax Years 2010-2020

Filing Status	Average Number of Households	Distribution of Households	Average Amount of Claims	Distribution of Claims	Average Claim	Average Eligible Expenses	Utilization Rate*
Single	1,697	1.45%	$140,725	0.93%	$83	$562,898	11.1%
Married Joint	13,855	11.87%	$2,345,910	15.52%	$169	$9,383,641	28.6%
Married Separate Combined	78,438	67.19%	$10,648,982	70.46%	$136	$42,595,928	47.7%
Married Separate	996	0.85%	$91,867	0.61%	$92	$367,467	30.9%
Head of Household	21,599	18.50%	$1,865,722	12.35%	$86	$7,462,889	21.2%
Qualified Widow(er)	155	0.13%	$19,559	0.13%	$126	$78,237	28.1%
Total	116,741	100%	$15,112,765	100%	$129	$60,451,062	34.8%

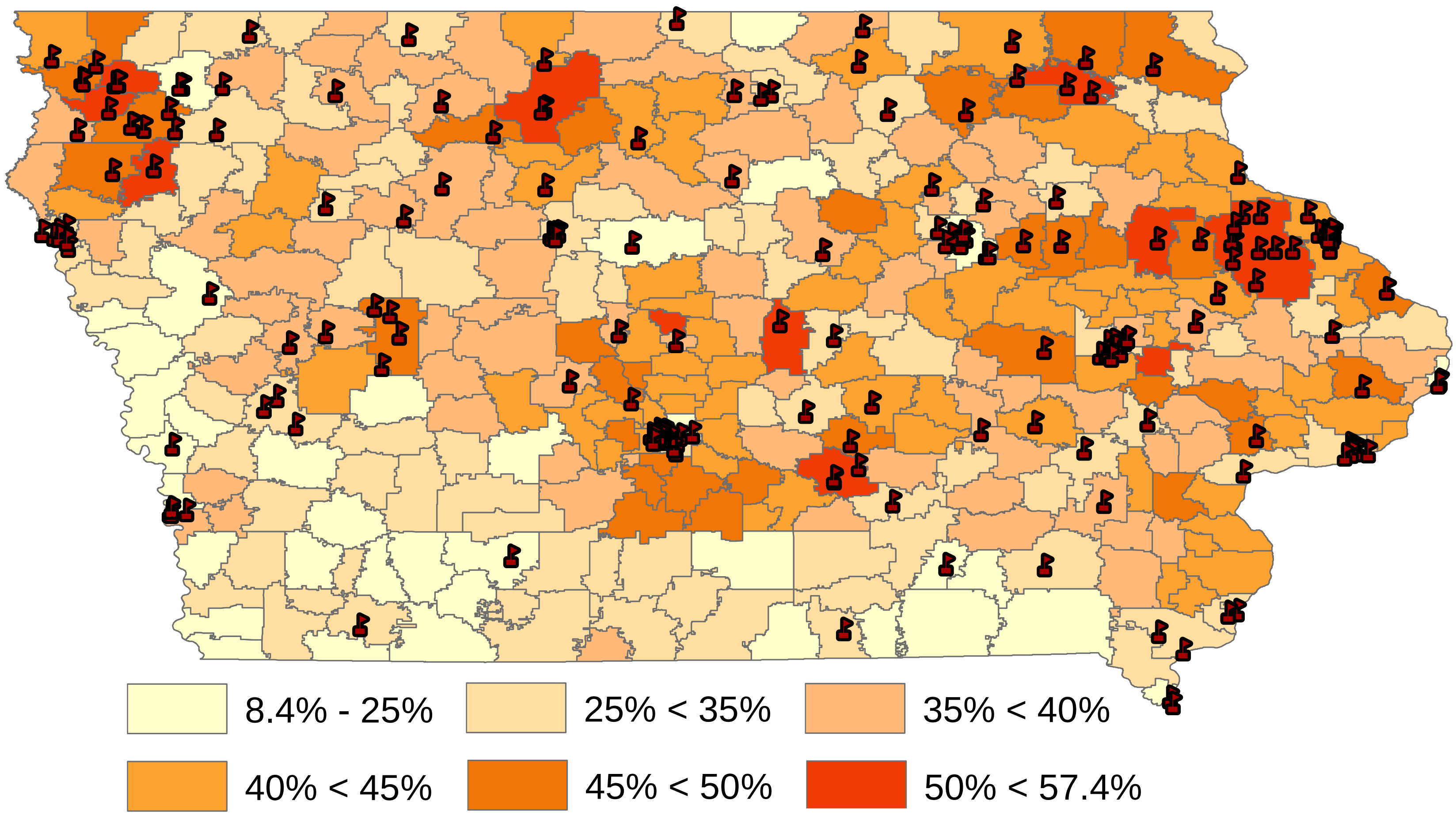
Source: IDR 2010-2020 individual income tax returns
Note: Utilization Rate is the ratio of resident households claiming the credit compared to all resident households with dependents between ages 5 and 21.

Table 7. Tuition and Textbook Tax Credit Claims by Adjusted Gross Income, Tax Years 2010-2020

Income Range	Average Number of Households	Distribution of Households	Average Amount of Claims	Distribution of Claims	Average Claim	Average Eligible Expenses	Utilization Rate*
Less than $20,000	1,130	0.97%	$98,269	0.65%	$87	$393,074	2.4%
$20,000 - $29,999	5,993	5.13%	$454,638	3.01%	$76	$1,818,550	17.1%
$30,000 - $39,999	9,379	8.03%	$886,269	5.86%	$94	$3,545,077	28.5%
$40,000 - $49,999	9,829	8.42%	$1,016,156	6.72%	$103	$4,064,626	35.0%
$50,000 - $59,999	10,041	8.60%	$1,103,265	7.30%	$110	$4,413,059	40.0%
$60,000 - $69,999	10,306	8.83%	$1,176,562	7.79%	$114	$4,706,247	44.0%
$70,000 - $79,999	10,098	8.65%	$1,203,963	7.97%	$119	$4,815,851	46.5%
$80,000 - $89,999	9,476	8.12%	$1,175,448	7.78%	$124	$4,701,792	48.1%
$90,000 - $99,999	8,659	7.42%	$1,121,807	7.42%	$130	$4,487,230	49.1%
$100,000 -$124,999	16,455	14.10%	$2,273,093	15.04%	$138	$9,092,374	50.4%
$125,000 -$149,999	9,406	8.06%	$1,415,335	9.37%	$150	$5,661,340	50.7%
$150,000 -$174,999	5,249	4.50%	$870,670	5.76%	$166	$3,482,678	50.0%
$175,000 -$199,999	3,003	2.57%	$538,844	3.57%	$179	$2,155,375	48.8%
$200,000 and Over	7,717	6.61%	$1,778,447	11.77%	$230	$7,113,788	46.4%
Total	116,741	100%	$15,112,765	100%	$129	$60,451,062	34.8%

Source: IDR 2020 individual income tax returns
Note: Utilization Rate is the ratio of resident households claiming the credit compared to all resident households with dependents between ages 5 and 21.

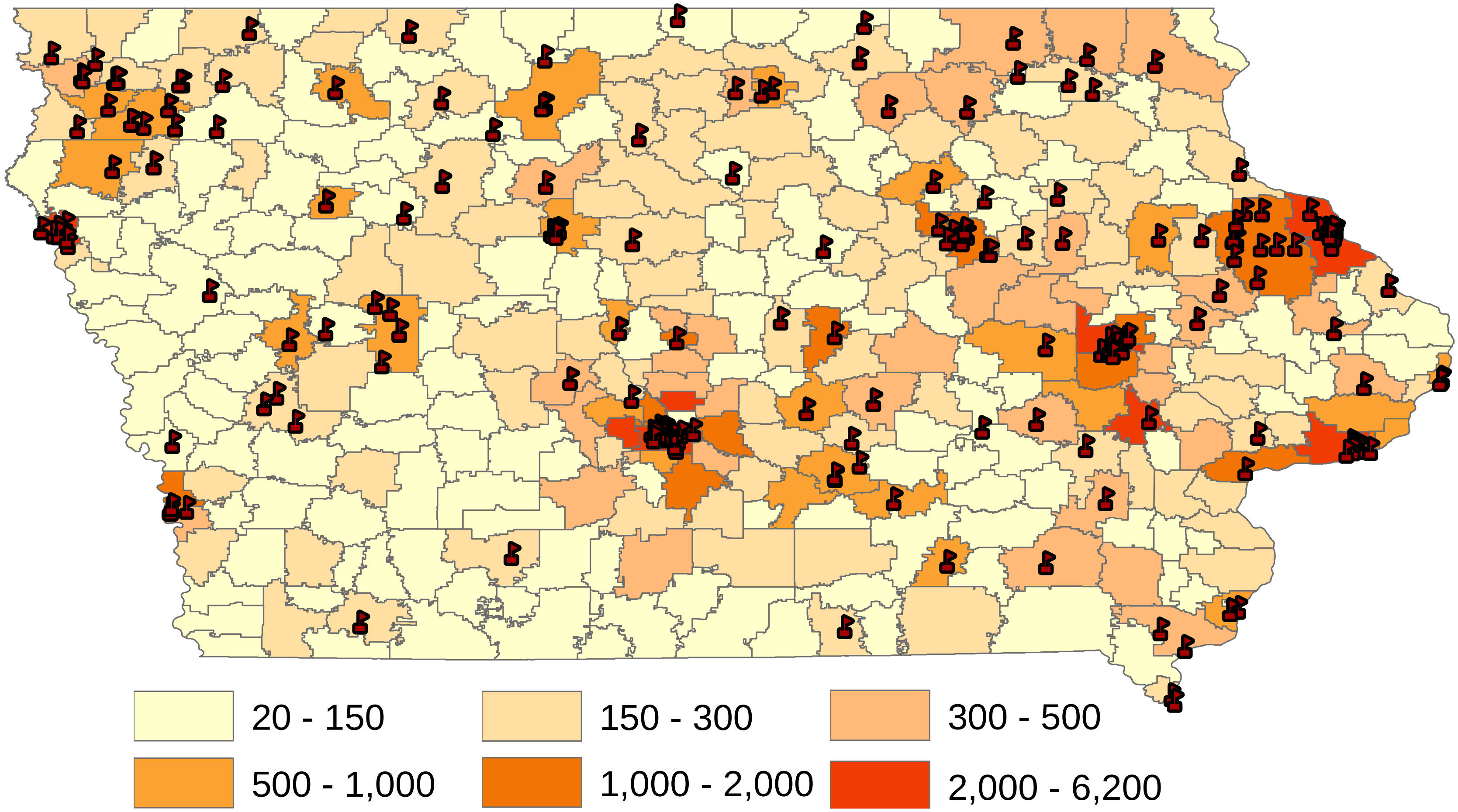
Figure 6. Average Tuition and Textbook Tax Credit Utilization Rates by School District, Tax Years 2010-2020



Sources: IDR 2010-2020 individual income tax returns; Iowa State University Geographic Information Systems Support & Research Facility

Note: Utilization Rate is the ratio of resident households claiming the credit compared to all resident households with dependents between ages 5 and 21.

Figure 7. Average Tuition and Textbook Tax Credit Claims by School District, Tax Years 2010-2020



Sources: IDR 2010-2020 individual income tax returns; Iowa State University Geographic Information Systems Support & Research Facility

Table 8. Top Ten School Districts by Average Total Tuition and Textbook Tax Credit Claims, Tax Years 2010-2020

	School District	Average Number of Eligible Households		Average Tuition and Textbook Tax Credit Claims			
		Rank	Number	Number of Claims	Total Amount of Claims	Percent of All Dollars Claimed	Utilization Rate
1	DES MOINES	1	24,252	6,196	$884,874	5.9%	25.5%
2	CEDAR RAPIDS	2	13,185	4,369	$723,156	4.8%	33.1%
3	DAVENPORT	3	11,767	3,391	$558,869	3.7%	28.7%
4	DUBUQUE	7	8,091	3,421	$505,658	3.4%	42.3%
5	WEST DES MOINES	9	6,940	2,791	$490,047	3.3%	40.2%
6	SIOUX CITY	4	9,982	2,548	$420,856	2.8%	25.5%
7	IOWA CITY	5	9,345	2,899	$402,439	2.7%	31.0%
8	WESTERN DUBUQUE	27	2,558	1,453	$346,181	2.3%	56.8%
9	WATERLOO	6	8,215	1,831	$339,367	2.3%	22.2%
10	WAUKEE	11	5,350	2,423	$333,713	2.2%	45.3%

Source: IDR 2010-2020 individual income tax returns
Notes: Eligible household is a resident household with a dependent aged 5 to 21. Utilization rate is the ratio of resident households claiming the credit compared to all resident households with dependents between ages 5 and 21.

Table 9. Top Ten School Districts by Average Tuition and Textbook Tax Credit Claim, Tax Years 2010-2020

	Average Number of Eligible Households		Average Tuition and Textbook Tax Credit Claims			
School District	Rank	Number	Number of Claims	Total Amount of Claims	Average Credit Per Claimant	Utilization Rate
1 ROCK VALLEY	111	657	322	$110,190	$342	49.1%
2 SIOUX CENTER	60	1,075	571	$183,204	$321	53.2%
3 BOYDEN-HULL	133	531	285	$91,309	$320	53.6%
4 SHELDON	96	765	183	$51,131	$280	23.9%
5 REMSEN-UNION	229	326	175	$48,437	$277	53.4%
6 CARROLL	38	1,635	808	$201,180	$249	49.4%
7 WESTERN DUBUQUE	27	2,558	1,453	$346,181	$238	56.8%
8 MOC-FLOYD VALLEY	54	1,156	541	$122,722	$227	46.8%
9 NORTH KOSSUTH	297	184	75	$14,619	$195	41.0%
10 AR-WE-VA	289	205	80	$15,408	$192	39.2%

Source: IDR 2010-2020 individual income tax returns

Note: Utilization Rate is the ratio of resident households claiming the credit compared to all resident households with dependents between ages 5 and 21.

Table 10. Top Ten School Districts by Average Tuition and Textbook Tax Credit Utilization Rate, Tax Year 2010-2020

	School District	Average Number of Eligible Households		Average Tuition and Textbook Tax Credit Claims			
		Rank	Number	Number of Claims	Total Amount of Claims	Percent of All Dollars Claimed	Utilization Rate
1	PELLA	35	1,708	980	$169,696	1.1%	57.4%
2	WESTERN DUBUQUE	27	2,558	1,453	$346,181	2.3%	56.8%
3	WEST MARSHALL	132	532	285	$30,189	0.2%	53.7%
4	BOYDEN-HULL	133	531	285	$91,309	0.6%	53.6%
5	WEST DELAWARE	63	1,050	561	$80,734	0.5%	53.5%
6	REMSEN-UNION	229	326	175	$48,437	0.3%	53.4%
7	SIOUX CENTER	60	1,075	571	$183,204	1.2%	53.2%
8	SOUTH WINNESHIEK	157	448	235	$39,130	0.3%	52.5%
9	GILBERT	99	755	389	$45,649	0.3%	51.5%
10	ALGONA	68	1,014	512	$94,998	0.6%	50.5%

Source: IDR 2010-2020 individual income tax returns

Notes: Eligible household is a resident household with a dependent aged 5 to 21. Utilization Rate is the ratio of resident households claiming the credit compared to all resident households with dependents between ages 5 and 21.

Table 11. Average Impact of the Tuition and Textbook Tax Credit to Claimants, Tax Years 2013-2018

Adjusted Gross Income	Average of Tax Liability Differential	Average Percent Change in Liability	Average Tax Liability for TTC Claimants With TTC	Average Tax Liability for TTC Claimants Without TTC
$20,000 to $30,000	$71	24%	$226	$297
$30,000 to $40,000	$93	10%	$804	$897
$40,000 to $50,000	$100	6%	$1,485	$1,586
$50,000 to $60,000	$109	5%	$2,039	$2,148
$60,000 to $70,000	$114	4%	$2,555	$2,669
$70,000 to $80,000	$120	4%	$3,057	$3,177
$80,000 to $90,000	$124	3%	$3,584	$3,708
$90,000 to $100,000	$132	3%	$4,112	$4,244
$100,000 to $125,000	$139	3%	$5,016	$5,156
$125,000 to $150,000	$155	2%	$6,346	$6,501

Source: Individual Return Data from Tax Years 2013 through 2018. Iowa Department of Revenue, Research and Policy Division

Table 12. Estimated Distribution of Tuition and Textbook Tax Credit Claimants Experiencing Decreases and Increases in Total Tax Liability in Tax Year 2023 by Potential Scenario

Estimates for Tax Year 2023	Estimated Change in State Income Tax and School Surtax Liability For Claimants of the Iowa Tuition and Textbook Tax Credit									
Iowa Taxable Income Current Law	**Scenario 1**		**Scenario 2**		**Scenario 3**		**Scenario 4**		**Scenario 5**	
Residents Filers	**Total**	**Average**	**Total**	**Average**	**Total**	**Average**	**Total**	**Average**	**Total**	**Average**
$10,000 or less	-$220,392	-$49	-$380,493	-$85	$0	$0	-$8,704,835	-$265	$862,456	$94
$10,001 to 20,000	-$1,409,348	-$104	-$2,810,199	-$204	-$86,160	-$133	-$758,671	-$339	$2,896,674	$184
$20,001 to 30,000	-$2,198,254	-$151	-$4,817,253	-$315	-$359,743	-$317	-$260,512	-$324	$3,181,349	$209
$30,001 to 40,000	-$2,535,763	-$172	-$5,970,904	-$408	-$528,802	-$391	-$112,482	-$306	$3,184,998	$213
$40,001 to 50,000	-$2,593,744	-$191	-$6,535,710	-$474	-$693,384	-$486	-$41,319	-$228	$2,909,006	$212
$50,001 to 60,000	-$2,597,353	-$201	-$6,593,617	-$515	-$732,312	-$537	-$33,631	-$249	$2,799,824	$216
$60,001 to 70,000	-$2,612,545	-$211	-$6,465,946	-$535	-$840,481	-$649	-$32,613	-$247	$2,724,336	$219
$70,001 to 80,000	-$2,496,086	-$214	-$6,489,014	-$572	-$801,798	-$650	-$36,238	-$292	$2,545,024	$217
$80,001 to 90,000	-$2,471,314	-$220	-$6,712,286	-$621	-$858,308	-$688	-$27,778	-$231	$2,500,504	$222
$90,001 to 100,000	-$2,279,635	-$220	-$6,119,847	-$614	-$861,596	-$740	-$27,027	-$273	$2,298,826	$221
$100,001 to 125,000	-$4,783,114	-$222	-$12,897,272	-$640	-$1,674,587	-$730	-$57,791	-$292	$4,819,962	$223
$125,001 to 150,000	-$3,374,865	-$232	-$9,610,873	-$680	-$1,289,616	-$774	-$38,169	-$261	$3,391,706	$233
$150,001 to 175,000	-$2,046,874	-$247	-$6,356,191	-$736	-$826,784	-$769	-$24,738	-$326	$2,063,498	$248
$175,001 to 200,000	-$1,375,103	-$269	-$4,179,418	-$778	-$611,286	-$819	-$11,500	-$225	$1,381,987	$270
$200,001 to 250,000	-$1,616,011	-$276	-$5,086,071	-$808	-$718,004	-$800	-$19,717	-$340	$1,623,784	$277
$250,001 to 500,000	-$2,158,536	-$320	-$6,918,561	-$946	-$1,067,049	-$869	-$51,062	-$486	$2,165,548	$321
$500,001 to 1,000,000	-$706,629	-$431	-$2,129,207	-$1,251	-$396,797	-$961	-$21,196	-$573	$708,229	$432
$1,000,001 or more	-$267,764	-$470	-$869,494	-$1,412	-$158,301	-$977	-$12,031	-$481	$267,754	$470
Resident Filers Total	**-$37,743,330**	**-$205**	**-$100,942,356**	**-$551**	**-$12,505,008**	**-$646**	**-$10,271,310**	**-$272**	**$42,325,465**	**$220**
Nonresident Filers										
$50,000 or less	-$333,561	-$157	-$667,608	-$323	-$31,004	-$274	-$1,701,700	-$322	$651,577	$213
$50,001 to 100,000	-$519,322	-$235	-$1,150,231	-$528	-$85,332	-$395	-$591,939	-$351	$732,376	$268
$100,001 to 500,000	-$812,254	-$264	-$2,108,923	-$672	-$143,311	-$527	-$927,328	-$356	$1,049,402	$279
$500,001 or more	-$276,053	-$291	-$701,793	-$734	-$47,740	-$503	-$384,874	-$377	$372,997	$324
Composite Filers	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Nonresident Filers Total	**-$1,941,190**	**-$232**	**-$4,628,555**	**-$555**	**-$307,387**	**-$441**	**-$3,605,841**	**-$340**	**$2,806,352**	**$262**
All Tax Filers Total	**-$39,684,520**	**-$206**	**-$105,570,911**	**-$551**	**-$12,812,395**	**-$639**	**-$13,877,151**	**-$287**	**$45,131,817**	**$223**

Source: Individual Return Data from Tax Year 2020. The micro model created for FY 2022 legislative session. Iowa Department of Revenue, Research and Policy Division

Notes: Scenario 1: 50 percent of the first $2,000 in qualified expenses for each student; Scenario 2: 100 percent of the first $2,000 in qualified expenses for each student; Scenario 3: increase to 25 percent of the first $4,000 in qualified expenses for each student; Scenario 4: the tax credit revised from nonrefundable to refundable; Scenario 5: eliminate the tax credit from the Iowa Tax Code

Table 13. Translation of Tax Year Estimated Impact to Fiscal Year Estimated Impacts Under Potential Scenarios

	Millions of Dollars					
Fiscal Year Estimates	**FY 2023**	**FY 2024**	**FY 2025**	**FY 2026**	**FY 2027**	**FY 2028**
Scenario 1	-$0.079	-$38.477	-$38.291	-$38.114	-$34.007	-$34.177
Scenario 2	-$1.188	-$101.206	-$102.610	-$101.862	-$88.806	-$89.475
Scenario 3	-$0.030	-$12.461	-$12.375	-$12.321	-$10.948	-$11.025
Scenario 4	-$0.023	-$13.840	-$14.265	-$14.499	-$18.094	-$17.957
Scenario 5	$0.085	$43.659	$43.614	$43.386	$39.724	$39.790

Source: Individual Return Data from Tax Year 2020. The micro model created for FY 2022 legislative session. Iowa Department of Revenue, Research and Policy Division

Notes: Scenario 1: 50 percent of the first $2,000 in qualified expenses for each student; Scenario 2: 100 percent of the first $2,000 in qualified expenses for each student; Scenario 3: increase to 25 percent of the first $4,000 in qualified expenses for each student; Scenario 4: the tax credit revised from nonrefundable to refundable; Scenario 5: eliminate the tax credit from the Iowa Tax Code