



SF 365 – Child and Dependent Tax Credit Income Caps (LSB2195XS)
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Fiscal Note Version – New

Description

[Senate File 365](#) increases the tax year 2019 income brackets and maximums for the existing [Child and Dependent Care Tax Credit](#) and [Early Childhood Development Tax Credit](#). For future tax years, the Bill also indexes both credits' income brackets and maximums for annual inflation. The changes are effective for tax years beginning on or after January 1, 2019.

Background

The federal tax code allows for a [Child and Dependent Care Tax Credit](#) for qualified expenses associated with the care of children under 13 and other dependents who are not able to care for themselves due to mental or physical disabilities. The credit is equal to 35.0% of eligible expenses for taxpayers with federal adjusted gross income (AGI) of \$15,000 or less, and the credit percentage decreases to 20.0% for taxpayers with AGI in excess of \$43,000. The maximum annual federal credit is \$3,000 for one qualified dependent and \$6,000 for two or more.

The Iowa Child and Dependent Care Tax Credit is available to taxpayers with net income below \$45,000. The Iowa credit is a percentage of the credit allowed for federal tax purposes. The Iowa credit percentage is a sliding scale based on the taxpayer's or taxpayers' Iowa net income.

The Iowa Early Childhood Development Tax Credit is equal to 25.0% of the first \$1,000 of qualifying expenses paid for each dependent from the ages of three to five. The maximum qualifying Iowa net income for this credit is \$44,999.

Taxpayers may only claim one of the two credits for a given tax year. The tax brackets and income limits under current law are not adjusted annually. The current net income limits are shown in **Table 1**.

Iowa Child and Dependent Care Tax Credit			Early Childhood Development Tax Credit	
Iowa Net Income Limit	% of Federal Tax Credit Amount		Iowa Net Income Limit	% of Federal Tax Credit Amount
\$ 9,999	75.0%		\$ 44,999	25.0%
19,999	65.0%			
24,999	55.0%			
34,999	50.0%			
39,999	40.0%			
44,999	30.0%			

Assumptions

The Bill increases the Iowa net income limit for both credits by 27.5% (to \$57,360) for tax year 2019. The intermediate brackets for the Child and Dependent Care Tax Credit are also increased by 27.5%. For future tax years, all brackets and limits are indexed for inflation.

Both tax credits are refundable, so they do not impact the calculation of the local option income surtax for schools.

Fiscal Impact

The changes to the two tax credits are projected to decrease net General Fund revenue by the following amounts:

- FY 2019 = \$0.1 million
- FY 2020 = \$2.4 million
- FY 2021 = \$2.9 million
- FY 2022 = \$2.9 million
- FY 2023 = \$3.6 million

For future fiscal years, the revenue reduction is projected to increase at the rate of inflation.

Source

Iowa Department of Revenue

/s/ Holly M. Lyons

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