Fiscal Note

Fiscal Services Division

HF 2594 – Employer-Provided Child Care Facilities and Services, Tax Credit (LSB5590HV.1)
Staff Contact: Jeff Robinson (515.281.4614) jeff.robinson@legis.iowa.gov
Fiscal Note Version – As amended by H-8091

Description

House File 2594 as amended by H-8091 creates a new Employer Child Care Tax Credit effective beginning tax year (TY) 2021. The credit is available to be used against bank franchise tax, income tax, insurance premium tax, and credit union moneys and credits tax. The credit is earned by a business that provides specified child care benefits to its employees. The credit is equal to the amount of the federal Employer-Provided Child Care Facilities and Services Tax Credit. The tax credit is not refundable, but unused credits may be carried forward for up to five additional tax years.

Background

The federal credit is available through federal Internal Revenue Service form 8882. The credit is equal to 25.0% of the qualified child care expenditures and 10.0% of the qualified child care resource and referral expenditures of the business. The federal credit is limited to a maximum of $150,000 per tax year per business. Under the provisions of the federal credit:

- The term "qualified child care expenditure" means any amount (up to fair market value) paid or incurred:
  - To acquire, construct, rehabilitate, or expand property which is to be used as part of a qualified child care facility of the taxpayer and does not constitute part of the principal residence of the taxpayer or any employee of the taxpayer.
  - For the operating costs of a qualified child care facility of the taxpayer, including costs related to the training of employees, to scholarship programs, and to the providing of increased compensation to employees with higher levels of child care training.
  - Under a contract with a qualified child care facility to provide child care services to employees of the taxpayer.
- The term "qualified child care resource and referral expenditure" means any amount paid or incurred under a contract to provide child care resource and referral services to an employee of the taxpayer.
- The term "qualified child care facility" means a facility, the principal use of which is to provide child care assistance and that meets the requirements of all applicable laws and regulations of the state or local government in which it is located, including the licensing of the facility as a child care facility. A facility shall not be treated as a qualified child care facility unless enrollment in the facility is open to employees of the taxpayer during the tax year. If the facility is the principal trade or business of the taxpayer, at least 30.0% of the enrollees of such facility are dependents of employees of the taxpayer and the use of the facility does not discriminate in favor of employees of the taxpayer who are highly compensated employees as defined under federal law.
- The federal credit is subject to potential recapture in a future tax year if the qualified child care facility is not operated as such for at least 10 years.
- The federal credit prohibits the taxpayer from also claiming the qualified expenditures as a business deduction.

Assumptions

- Based on electronic tax returns filed by Iowa businesses for TY 2014 through TY 2016, the Department of Revenue estimates that five C corporations and five pass-through businesses (LLCs, subchapter S corporations, partnerships) utilize the federal credit each year and the TY 2016 average federal tax credit for TY 2016 was $26,000 for a C corporation and $18,000 for a pass-through business. It is assumed that these 10 entities will claim the new State credit beginning with TY 2021.
- The new State tax credit will effectively double the tax credit value to businesses willing and able to provide child care benefits to employees. This has the potential to increase the participation in the federal credit program. The number and size of businesses that may decide to take advantage of this new tax credit is not known. For this estimate, it is assumed that an additional 10 businesses will begin to utilize the credit starting TY 2022.
- For C corporations, the impact of a tax year's tax credit redemptions will occur 25.0% in the fiscal year of the tax year and 75.0% in the following fiscal year.
- For pass-through businesses, the impact of a tax year's tax credit redemptions will occur 100.0% in the following fiscal year.
- Due to inflation, the average tax credits claimed will increase each year by 1.6%.
- The value of the benefit received by the employee may be taxable income. The State individual income tax revenue that would result from such a situation is not factored into this estimate.

Fiscal Impact

The new Employer Child Care Tax Credit created in the Bill as amended by H-8091 is projected to reduce net General Fund revenue by the following amounts:

- FY 2021 = $35,000
- FY 2022 = $310,000
- FY 2023 = $727,000

The General Fund revenue reduction is projected to continue in future fiscal years, increasing by the rate of inflation.

Sources

Department of Revenue
Legislative Services Agency analysis

/s/ Holly M. Lyons

March 9, 2020

Doc ID 1132725725

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.