



[SF 49](#) – Tuition and Textbook Tax Credit, Private Instruction (LSB1200SS)
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Fiscal Note Version – New

Description

[Senate File 49](#) expands eligibility for the existing [Tuition and Textbook Tax Credit](#) to include dependents of a taxpayer who are elementary or secondary students receiving private instruction. The Bill defines the term “private instruction” to include:

- Independent private instruction as defined in Iowa Code section [299A.1\(2\)\(b\)](#).
- Competent private instruction as described in Iowa Code section [299A.2](#).
- Private instruction by a nonlicensed person as described in Iowa Code section [299A.3](#).

Under current law, access to the tax credit is restricted to households with students attending accredited public and nonpublic elementary and secondary schools. School situations that are not accredited are excluded. The change is effective retroactive to the beginning of tax year (TY) 2021.

Background

Current Iowa law allows taxpayers to claim a nonrefundable tax credit equal to 25.0% of up to \$1,000 in qualified elementary and secondary (K-12) school expenses paid by the taxpayer for each dependent attending an accredited K-12 public or nonpublic school. Qualified expenses include:

- Tuition paid to an accredited school.
- Textbooks.
- Specialized play, concert, and sports clothing.
- Driver’s education fees paid to a K-12 school.
- Certain dues, fees, and admission charges.
- Materials for extracurricular activities.
- Rental of musical instruments and other music expenses.
- Required supplies for shop and other specialized classes.
- Fees and charges for transportation if paid to the school.
- Band and athletic uniforms.

Approximately 40.0% of eligible households (those with dependents aged 5 through 18) claim the credit each tax year. Annual credits utilized on Iowa income tax returns total approximately \$15.0 million per year. For TY 2018, 113,900 households claimed a total of \$15.1 million in Tuition and Textbook Tax Credits. A program evaluation of the credit completed by the Department of Revenue in 2018 can be found [here](#).

Assumptions

- The Iowa Department of Education does not track or estimate the number of students attending school outside of the accredited public and private school system.
- The National Center for Education Statistics [estimates](#) that the average number of private elementary and secondary students in Iowa from 2013 through 2017 was 59,400. It is

assumed that this estimate includes accredited nonpublic attendance as well as attendance at schools that are not accredited by the State and also home-schooled students.

- Iowa Department of Education statistics show that the average number of students enrolled in Iowa elementary and secondary accredited nonpublic schools from 2013 through 2017 was 34,900. Subtracting 34,900 from the estimated 59,400 students not attending accredited schools results in 24,500 students who might benefit from the change to the tax credit.
- The rate of participation in the credit will not be 100.0%. To account for situations where the taxpayer does not know about the credit, does not have sufficient qualified expenses, or does not have any income tax liability, it is assumed that 75.0% of the projected 24,500 (18,375) eligible students will benefit from the expanded credit.
- The maximum credit per student is \$250. However, not all taxpayers claiming the credit will have the necessary \$1,000 in expenses for each dependent student. Also, as the credit is nonrefundable, some taxpayers will not have sufficient tax liability to use the full amount allowed. The average tax credit benefit is assumed to be \$210 per student.
- The tax reduction associated with the changes to the tax credit is assumed to occur when tax returns are filed (decreased final tax payments and increased tax refunds).
- As a nonrefundable tax credit, changes to the Tuition and Textbook Tax Credit impact the calculation of the income [surtax](#) for schools. Since the changes in the Bill lower State income tax liability, the changes also reduce the amount of surtax owed by taxpayers in public school districts where the surtax applies.

Fiscal Impact

Expanding the Tuition and Textbook Tax Credit to students who are not enrolled in an accredited public or nonpublic school is projected to decrease annual General Fund revenue by \$3.9 million, beginning FY 2022. The changes are also projected to reduce the amount raised by the income surtax for schools by \$116,000 per year.

Additional Potential Fiscal Impact

Existing Iowa law provides for a significant change to Iowa's individual income tax system once two General Fund revenue triggers are met. The first year that the triggers may be met is at the conclusion of FY 2022. Once implemented, this contingent income tax system is projected to reduce Iowa individual income tax by roughly \$300.0 million per tax year. Since this Bill is projected to reduce General Fund revenue in FY 2022 and after, the Bill's changes will modestly reduce the probability of achieving both revenue triggers; as a consequence, the Bill could result in delayed implementation of the income tax reduction by one or more tax years.

Sources

Department of Revenue
Department of Education
National Center for Education Statistics
LSA calculations

/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.
