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**HF 141** – Day Care Providers, Income Tax Exemption (LSB1459YH)  
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Fiscal Note Version – New

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**Description**

**House File 141** exempts wages earned by a taxpayer when providing specified child care services from the State income tax. The Bill defines “child care services” to include services provided at:

- A child care home — A person or program that is not registered under Iowa Code chapter [237A](#) providing child care to five or fewer children at a time as authorized under Iowa Code section [237A.3](#).
- A child care facility — A child care center, preschool, or a registered child development home.

The change is retroactive to January 1, 2021, for tax years (TY) beginning on or after that date.

**Assumptions**

- Using information from the Department of Workforce Development and the Department of Public Health, the Department of Revenue (DOR) estimates that there are approximately 8,400 child care professionals and 2,800 in-home child care providers in Iowa. Using wage information from the [Occupational Employment Statistics](#) program of the federal Bureau of Labor Statistics, the DOR estimates that wages in the industry range from \$17,600 to \$23,600.
- Using the DOR income tax micromodel developed for use during the 2021 Legislative Session, the DOR randomly assigned the projected child care wages to 11,200 Iowa wage earners between the ages of 18 and 55. The micromodel utilizes actual State and federal tax return data from TY 2019 to simulate tax returns filed for future tax years. The model gives the Department the ability to change tax parameters and determine the estimated fiscal impact of those changes on tax liability and State General Fund revenue.
- The model simulation assumes that the contingent income tax system established in [SF 2417](#) (2018 Tax Modifications Act) will be put in place the second tax year possible (TY 2024) under existing law. The contingent tax system redefines Iowa net income, and that redefinition results in the TY 2024 increase in the number of taxpayers benefiting from the changes contained in this Bill.
- The change applies to income earned on or after January 1, 2021. For calendar year 2021, the impact on tax revenue is assumed to occur 10.0% in FY 2021 and 90.0% in FY 2022. For future calendar years, the impact is assumed to occur 50.0% in the first half of the calendar year and 50.0% in the second half of the calendar year.
- Law changes that increase or decrease Iowa taxable income also increase or decrease the amount of local option income surtax for schools owed by Iowa taxpayers who are subject to the surtax. It is assumed that surtax changes will equal an amount that is 3.0% of projected income tax changes.

**Fiscal Impact**

The proposed income tax exemption for wages earned through child care services is projected to reduce General Fund revenue by the amounts shown in the last column of the following table.

For FY 2027 and after, the impact is expected to increase at the rate that wage income increases.

<b>Projected General Fund Revenue Reduction</b>					
In Millions					
<u>By Tax Year</u>			<u>By Fiscal Year</u>		
TY 2021	\$	8.7	FY 2021	\$	0.9
TY 2022		9.0	FY 2022		12.3
TY 2023		9.1	FY 2023		9.1
TY 2024		7.1	FY 2024		8.1
TY 2025		7.3	FY 2025		7.2
TY 2026		8.2	FY 2026		7.8

The income tax exemption is also projected to reduce the revenue raised through the local option income surtax for schools by approximately \$250,000 per tax year.

Since Wage and Tax Statement Form W-2 does not designate what type of job the taxpayer held that generated wage income, the DOR will need to develop some type of system for employers and/or taxpayers to identify the income that was earned through the type of employment covered by this Bill. This issue could generate significant administrative costs for the DOR.

**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 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 moderately reduce the possibility of achieving both revenue triggers; as a consequence, the Bill could result in delayed implementation of the income tax reduction.

**Sources**

Department of Revenue  
Department of Workforce Development  
Department of Public Health  
Bureau of Labor Statistics

/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.

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