



[HF 47](#) – Day Care Providers, Income Tax Exemption (LSB1270YH)
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Fiscal Note Version – New

Description

[House File 47](#) creates a new Iowa income tax exemption for the amount of wages received by a taxpayer for child care services. “Child care services” is defined in the Bill to include services provided at a child care center, preschool, or registered child development home, or at a child care home as defined in Iowa Code section [237A.1](#)(6). The Bill takes effect upon enactment and the exemption applies retroactively to January 1, 2023.

Assumptions

- The tax reduction estimate was completed by the Department of Revenue (Department) using the individual income tax micromodel developed by the Department. The micromodel is based on income tax returns filed for tax year (TY) 2021 and is time-adjusted for other enacted State and federal law changes, as well as personal income and population changes that are projected to occur after the base tax year. The Department incorporated the following assumptions into the individual income tax micromodel.
 - Information published (iowaworkforcedevelopment.gov/occupational-projections) by Iowa Workforce Development indicates that there are 13,200 child care workers in Iowa and the annualized average entry-level wage equals \$17,800 and the experienced worker annualized average wage equals \$24,600 (data from 2020).
 - The Department assigned 13,200 random taxpayers represented in the micromodel who reported similar annual wages for tax year 2021 and were between the ages of 18 and 55. The Department then determined the income tax reduction that would result if the taxpayers’ wage income had been exempt.
 - The model results are adjusted to account for persons who pay Iowa income tax through income tax withholding or other means but do not file Iowa income tax returns and are therefore not included as part of the micromodel’s dataset but will benefit from the exemption through reduced income tax withholding.
- The micromodel produces results based on tax years. The Department converts tax year results to fiscal year estimates using historical relationships between income tax withholding, estimate payments, tax refunds, and payments with filed tax returns.
- The Bill defines the income tax exemption to include services provided at a child care home or child care facility, but it does not directly state that the services performed must be related to the care of children. It is assumed that the Department, through administrative rules, will define the services subject to the income tax exemption as only those related to the care of children receiving care at the home or facility.
- The [income surtax for schools](#) is a local option tax that is based on a taxpayer’s Iowa income tax liability. Law changes that lower Iowa income tax liability also lower the surtax owed by any taxpayer subject to the surtax. For this projection, the surtax is assumed to equal 2.4% of State income tax liability.

Fiscal Impact

The proposed child care services income tax exemption is projected to reduce General Fund revenue by the amounts listed in the right column of the following table. The General Fund impact continues past FY 2028, increasing each year by the rate of growth in child care services income earned by Iowa taxpayers.

Child Care Worker Income Exemption			
In Millions			
	Income Tax <u>Reduction</u>		General Fund Revenue <u>Reduction</u>
TY 2023	\$ 8.9	FY 2023	\$ 0.8
TY 2024	8.6	FY 2024	13.6
TY 2025	9.1	FY 2025	8.2
TY 2026	10.0	FY 2026	11.0
TY 2027	10.6	FY 2027	11.3
TY 2028	10.8	FY 2028	10.9

As a result of the proposed income tax exemption, the statewide total received through local option income surtaxes for schools is projected to be reduced by approximately \$0.2 million each tax year. A school district that is not at its maximum allowed surtax rate may choose to increase the surtax rate in order to maintain their annual surtax revenue.

Sources

Iowa Department of Revenue
Iowa Workforce Development

/s/ Jennifer Acton

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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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