



[SF 2231](#) – Educational Programs, Eligibility of Sectarian Programs and Costs (LSB5898SV.2)
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Fiscal Note Version – Final Action

Description

[Senate File 2231](#) requires the Director of the Department of Education (DE) to distribute to superintendents and principals the most recent version of the United States Department of Education’s [guidance](#) related to constitutionally protected prayer and religious expression in public elementary and secondary schools. Each superintendent and principal will distribute this guidance as detailed in the Bill. The DE is required to provide a link on its site to this most recent guidance. The DE will develop and distribute to public schools and community-based providers participating in the Statewide Voluntary Preschool Program (SWVPP) a professional development (PD) training program and a model policy regarding constitutionally protected prayer and religious expression in elementary and secondary schools.

The Bill requires school districts to enter into [28E](#) agreements with community-based providers to allow a community-based provider to provide high-quality instruction as part of the approved local preschool program.

The Bill also removes exclusions of sectarian books and expenses that relate to the teaching of religion from the definitions of “textbooks” and “tuition” for the Tuition and Textbook Tax Credit (TTC), and removes exclusions of certain religious services, materials, or activities from the definition of early childhood development expenses for the Early Childhood Development (ECD) Tax Credit.

The removal of exclusions for the TTC and the ECD Tax Credit apply retroactively for tax years beginning on or after January 1, 2026.

The Bill also provides for free speech protections and enforcement mechanisms including civil action and civil penalties.

Background

The SWVPP, established in Iowa Code chapter [256C](#), provides funding to school districts for eligible preschool-age children and programs. Under current law, only school districts that meet certain requirements established by the State Board of Education can participate in the SWVPP. School districts are currently allowed to contract with community-based providers for SWVPP services. State funding provided for the SWVPP is provided to school districts based on the number of eligible students enrolled in the preschool program. If the school district contracts with a community-based provider, any State funding passes from the school district to the community-based provider.

Over the last three years, the following number of school district and community-based partnerships have been in place:

- 2023-2024 academic year: 323 school district programs with 238 community partner locations.

- 2024-2025 academic year: 324 school district programs with 231 community partner locations.
- 2025-2026 academic year: 325 school district programs with 228 community partner locations.

The DE currently dedicates 3.0 full-time equivalent (FTE) positions to provide State oversight and technical assistance, including PD, coaching services, and program monitoring. Professional development is also provided through the Area Education Agencies (AEAs) as a fee-for-service option.

The TTC was created in 1987 Iowa Acts, chapter [233](#) (Appropriations and Programs Relating to Various Public Agencies Act), and is summarized in a [Fiscal Topic, Tax Credit: Tuition and Textbook Tax Credit](#). In 2021 Iowa Acts, chapter [139](#) (Education Programs, Tax Credits, and Information Act), the expense cap was increased from \$1,000 to \$2,000 with a 25.0% credit (\$500) against eligible education expenses.

According to the December 2025 [Contingent Liabilities Report](#) from the Iowa Department of Revenue (IDR), claims for the TTC totaled \$23.8 million in FY 2025.

The ECD Tax Credit was created in 2005 Iowa Acts, chapter [148](#) (Early Care, Child Care, Education, Health, and Human Services Assistance Act), and is summarized in the [Fiscal Topic, Tax Credit: Early Childhood Development Tax Credit](#). In 2021 Iowa Acts, chapter [177](#) (State and Local Revenue and Finance Act), the income eligibility limit was increased from \$45,000 to \$90,000, with a tax credit limit of 25.0% (\$250) against a maximum of \$1,000 in eligible expenses.

According to the December 2025 Contingent Liabilities Report from the IDR, claims for the ECD Tax Credit totaled \$1.4 million in FY 2025.

Assumptions

The following assumptions are made regarding requiring school districts to enter into 28E agreements with community-based providers:

- Community-based providers will adhere to the same programmatic requirements and administrative tasks as those currently assumed by school districts, including annual program assurances, State data reporting, assessment requirements, and meeting preschool program standards as established by the State Board of Education.
- Licensing requirements for SWVPP personnel will be maintained.
- With a potential increase in community-based providers, the DE may require additional FTE positions to support State oversight and technical assistance services.
- The current State school aid for SWVPP is \$4,074 per pupil.
- Each new community-based provider would be supporting classrooms with a maximum of 20.0 pupils at a State school aid cost of \$81,480.
- The DE FTE salary and benefit cost for an Education Program Consultant is \$160,000 and for a Data Analyst is \$149,000.

The following assumptions are made regarding the TTC exclusions:

- Tax year (TY) 2026 impacts will primarily affect individual income tax revenue to the General Fund beginning in FY 2027, although a small amount of TY 2026 claims will materialize in FY 2026.
- According to TY 2024 data, approximately 13,000 households with dependents who attend private religious schools would have the ability to access the TTC under the \$2,000 expenditure limit.

- The price of a textbook for K-12 students is \$90.
- The Bill affects both resident and nonresident individual income taxpayers.
- 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 amount of income surtax owed by any taxpayer subject to the surtax. For this projection, the surtax is assumed to equal 3.3% of State individual income tax liability.

The following assumptions are made regarding the ECD Tax Credit exclusions:

- Tax Year 2026 impacts will affect individual income tax revenue to the General Fund beginning in FY 2027.
- Approximately 400 households annually that have not reached the maximum \$250 tax credit would be eligible to claim the credit.
- The average tax credit increase per household is \$145, per the IDR.
- Approximately 15.0% of children from three to five years old are in faith-based child care that may purchase religious materials that are eligible expenses used to calculate the tax credit.
- The Bill affects both resident and nonresident individual income tax payers.
- The tax credit is refundable and would have no impact on the income surtax for schools.

Fiscal Impact

The fiscal impact of the section of the Bill requiring school districts to enter into 28E agreements with community-based providers is undetermined because it is unknown whether there will be an increase in SWVPP due to additional pupils participating in preschool programs provided by community-based providers. For each additional pupil participating in the SWVPP, there will be an additional cost to the General Fund of \$4,074 based on the current State cost per pupil. In addition, the DE may incur additional administrative costs due to the increase of oversight and providing technical assistance to community-based providers.

The section of the Bill affecting the TTC is estimated to decrease income surtax for schools by approximately \$13,000 annually beginning in FY 2027, and decrease General Fund revenue in the following amounts:

- FY 2026 = \$2,000
- FY 2027 = \$397,000
- FY 2028 = \$395,000
- FY 2029 = \$395,000
- FY 2030 = \$391,000
- FY 2031 = \$385,000

The section of the Bill affecting the ECD Tax Credit is estimated to decrease General Fund revenue in the following amounts:

- FY 2027 = \$60,000
- FY 2028 = \$59,000
- FY 2029 = \$59,000
- FY 2030 = \$59,000
- FY 2031 = \$58,000

The provisions of the Bill related to distributing guidance, providing PD, and distributing a model policy are expected to have no fiscal impact to the DE.

Sources

Department of Education
Iowa Department of Revenue
Bipartisan Policy Center
Legislative Services Agency analysis

/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.
