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**SF 2348** – Higher Education Expenditures, Tuition for In-Demand Career Fields (LSB5063SV)  
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Fiscal Note Version – New

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**Description**

**Senate File 2348** creates a high-demand occupation tax credit up to the amount of qualifying community college tuition and mandatory fees incurred by a taxpayer. The taxpayer must be a resident of Iowa who completes a course of study at an Iowa community college that qualifies the taxpayer for a high-demand occupation.

Under the provisions of the Bill, a student would sign an agreement with the community college that requires the student to maintain at least a 2.0 grade point average (GPA) on a 4-point scale until the student is issued a credential by the community college for successful completion. The agreement must be for at least two years of study and not more than five years. Upon successful completion of the agreement, the community college would notify the Department of Revenue of the total amount of tuition and mandatory fees paid by the student in earning the credential. The Department of Revenue would issue a tax credit certificate to the taxpayer for the amount certified by the community college.

The taxpayer may apply the credit to Iowa income tax liability for the following five years or until the tax credit is depleted, whichever is earlier. The tax credit is not refundable or transferrable and cannot be applied to a tax year prior to the year in which the tax credit is redeemed.

If the taxpayer enters into active military service or enrolls in an accredited private or public institution in Iowa to pursue further education, the tax credit may be extended for an additional two years or until depleted.

The tax credit applies to tax years beginning on or after January 1, 2019.

**Assumptions**

The estimate includes the following assumptions:

1. Completion of a credential requires 64 credit hours at an average cost (tuition and mandatory fees) of \$160 per credit hour in 2017. A growth rate, based on the Consumer Price Index as forecasted by Moody's Analytics, is applied to the 2017 cost per credit hour.
2. The first taxpayers to claim the tax credit would enroll as freshmen after January 1, 2019, and complete a credential in May 2021. The earliest date for taxpayers to claim the tax credit would be the 2022 tax filing season (FY 2022), against income earned in 2021.
3. The first cohort to sign agreements for the tax credit would have an enrollment of 6,500 students, and enrollment would remain level in subsequent years.
4. Approximately 83.0% of students would remain in Iowa upon completion of a credential, resulting in 5,400 taxpayers who would be eligible for the tax credit beginning in tax year 2021, when they would earn an average annual wage of \$34,000.

5. Based on average earnings growth for young adults, wages for taxpayers eligible for the tax credit would grow at the following rates for the second to the sixth year after completion of a credential: 12%, 9%, 8%, 6%, and 6%.
6. Assumed tax rates for the six years after completion of a credential are calculated using the Department of Revenue's individual income tax micro model. This results in the following average tax liability for a taxpayer who completed a credential in 2021:

Tax Year	Average Tax Liability
2021	\$ 1,047
2022	\$ 1,162
2023	\$ 1,267
2024	\$ 1,368
2025	\$ 1,450
2026	\$ 1,538
Total	<u>\$ 7,832</u>

7. Taxpayers who are married and file joint returns could use the tax credit to offset the joint tax liability, which could increase the fiscal impact of the tax credit. This potential impact is not included in the estimate because data on marriage rates for eligible taxpayers is not available.
8. The following table shows the estimated total tax credit claims made against the tax liabilities by each cohort for the first six years of the program:

Tax Year	1st Cohort	2nd Cohort	3rd Cohort	4th Cohort	5th Cohort	6th Cohort	7th Cohort
2021	\$ 5,732,917						
2022	\$ 6,774,088	\$ 5,847,349					
2023	\$ 7,831,257	\$ 6,909,303	\$ 5,965,692				
2024	\$ 8,941,058	\$ 7,987,573	\$ 7,049,139	\$ 6,088,495			
2025	\$ 9,989,820	\$ 9,119,527	\$ 8,149,232	\$ 7,194,244	\$ 6,214,900		
2026	\$ 10,860,727	\$ 10,189,222	\$ 9,304,094	\$ 8,316,982	\$ 7,343,606	\$ 6,345,000	
2027		\$ 11,077,514	\$ 10,395,440	\$ 9,495,617	\$ 8,489,654	\$ 7,497,334	\$ 6,484,731

9. The Department of Revenue would be required to review over 5,000 applications for the high-demand occupation tax credit each year. This would require hiring one additional full-time equivalent employee to administer the program at a cost of \$120,000 per year.
10. The Department of Revenue would incur a one-time cost of \$175,000 to build the new tax credit into the Tax Credit Award, Claim & Transfer Administration System (CACTAS). This would allow the community colleges to file online all required documentation for each student and allow for the timely administration of a high volume of applications.

**Fiscal Impact**

It is estimated that [SF 2348](#) would have the following impact to State General Fund income tax revenue:

Fiscal Year	Fiscal Impact (Millions)
2019	\$ 0
2020	\$ 0
2021	\$ 0
2022	\$ -5.73
2023	\$ -12.68
2024	\$ -20.89
2025	\$ -30.46
2026	\$ -41.36

**Source**

Department of Revenue

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/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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