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## FISCAL TOPICS

Fiscal Services Division

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## Tax Credit: School Tuition Organization

The School Tuition Organization (STO) Tax Credit is available to corporate income taxpayers, individual income taxpayers, and estates and trusts.

The tax credit is available for 65.0% of the amount of a voluntary cash or noncash contribution made by a taxpayer to an STO. The contribution cannot be used for the direct benefit of any dependent of the taxpayer or any other student designated by the taxpayer. There is no limit to what a taxpayer contributes, but if an STO exceeds its allotted amount of tax credits, it is the STO's responsibility to prorate the credits appropriately.

An STO must be a charitable organization in Iowa that is exempt from federal taxation under Section [501\(c\)\(3\)](#) of the Internal Revenue Code and that allocates at least 90.0% of its annual revenue to tuition grants for children who reside in Iowa to allow them to attend a qualified school of their parents' choice. The STO must represent more than one school and can only provide tuition grants to eligible students who are members of households whose annual income does not exceed an amount equal to three times the most recent federal poverty guidelines published by the United States Department of Health and Human Services for tuition grants provided prior to January 1, 2019, or whose annual income does not exceed an amount equal to four times those guidelines for tuition grants provided on or after January 1, 2019.

The STO must initially register with the Iowa Department of Revenue (IDR) and must provide verification of 501(c)(3) status, a list of schools the organization serves, and the names and addresses of the board of directors of the organization. Once the organization has registered, the STO is not required to subsequently reregister unless the schools it serves changes.

By December 1 of each year, the IDR will authorize an STO to issue tax credit certificates for the following tax year. The STO issues tax credit certificates to the taxpayers that contributed to the STO. The total amount of tax credit certificates authorized are limited each calendar year. The tax credit certificates available for issue by each STO are determined by dividing the total tax credits available by the total enrollment of all participating schools. This result, which is the per student tax credit, is then multiplied by the total participating enrollment of each STO to determine the tax credit allotted to each STO.

Each school served by an STO must annually submit a participation form to the IDR by November 1 that provides the school's certified enrollment as of October 1 and the STO that represents the school. A school cannot be represented by more than one STO. Additional performance monitoring requirements are reported to the IDR by January 12 of each year.

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### More Information

Department of Revenue Contingent Liabilities Report: [tax.iowa.gov/report-category/contingent-liabilities](http://tax.iowa.gov/report-category/contingent-liabilities)

Department of Revenue Tax Credit Review:

[tax.iowa.gov/reports/school-tuition-organization-tax-credit-evaluation-study-0](http://tax.iowa.gov/reports/school-tuition-organization-tax-credit-evaluation-study-0)

Department of Revenue Tax Credit Users' Manual:

[tax.iowa.gov/sites/default/files/2020-11/TaxCreditsUsersManual2020.pdf](http://tax.iowa.gov/sites/default/files/2020-11/TaxCreditsUsersManual2020.pdf)

Legislative Services Agency Individual Income Tax Guide: [www.legis.iowa.gov/docs/publications/LG/711304.pdf](http://www.legis.iowa.gov/docs/publications/LG/711304.pdf)

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### Tax Credit Background

- Enabling Legislation: 2006 Iowa Acts, chapter [1163](#) (School Tuition Organization Tax Credit Act)
- Iowa Code Citations:
  - [Section 422.11S](#) — Individual Income Tax
  - [Section 422.33\(28\)](#) — Corporate Income Tax
- Administrative State Agencies: Iowa Department of Revenue
- Sunset Date: None
- Transferable: No
- Refundable: No
- Carryforward: Unused credits may be carried forward for up to five tax years
- Tax Review Committee Review Year: 2022

### Legislative History

The STO Tax Credit went into effect on January 1, 2006, with an initial annual award cap of \$2.5 million. This cap has been adjusted as shown in the following table.

<b>STO Tax Credit Limits</b>	
	<b>Total Tax Credit Certificates Authorized for Each Calendar Year</b>
CY 2006	\$ 2,500,000
CY 2007	5,000,000
CY 2008 through 2011	7,500,000
CY 2012 and 2013	8,750,000
CY 2014 through 2018	12,000,000
CY 2019	13,000,000
CY 2020 and 2021	15,000,000
CY 2022*	16,500,000
CY 2023*	18,150,000
CY 2024*	19,965,000
CY 2025 and beyond*	20,000,000

\*Provided that 90.0% of the previous year cap was awarded

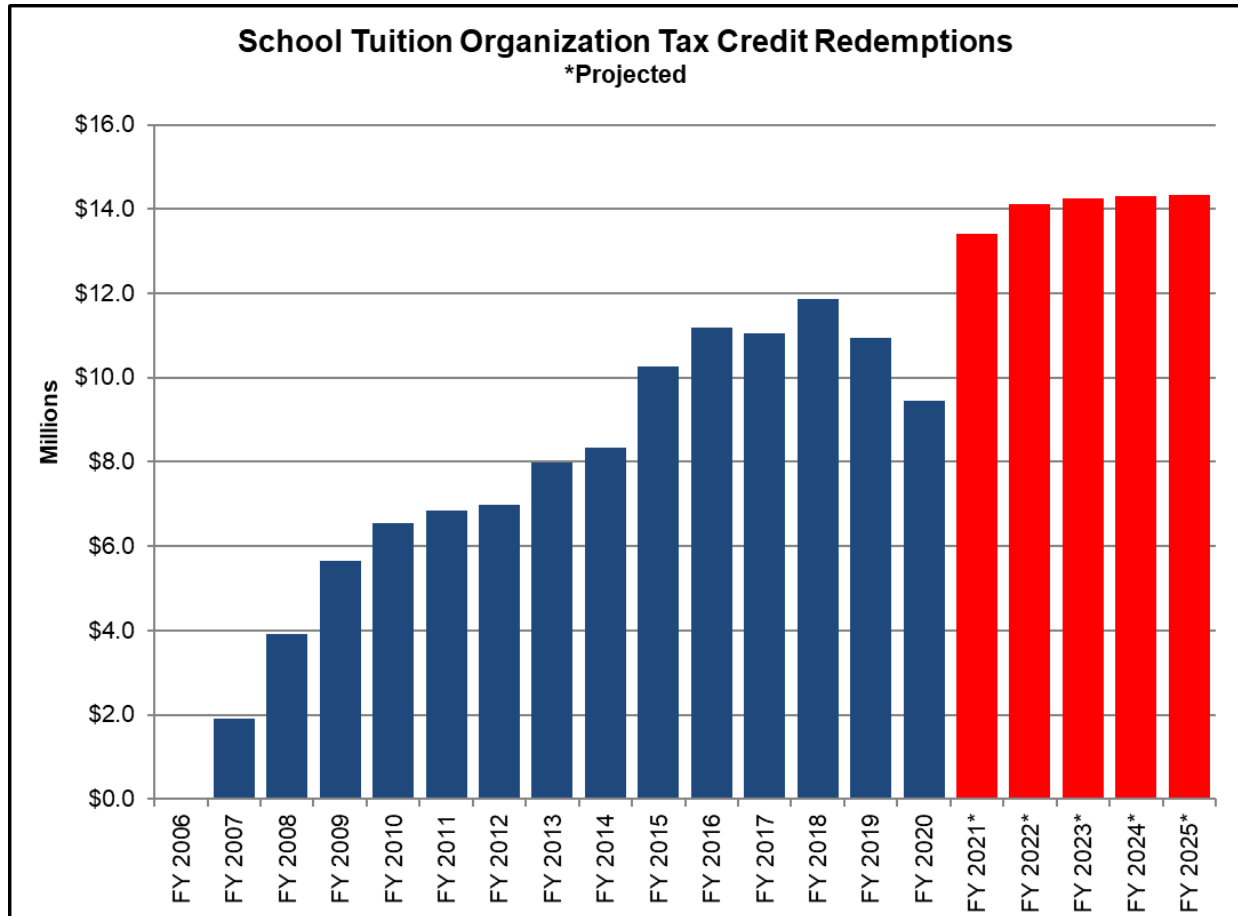
Effective for tax years starting on or after July 1, 2009, the credit can be taken against corporate income tax. For tax years beginning on or after January 1, 2013, the credit can be awarded to S corporations, partnerships, limited liability companies, or estates or trusts. Effective in 2020, the limitation of issuing no more than 25.0% of an STO's allotted credits to C corporation taxpayers was rescinded.

### Tax Credit Review, Usage, and Future Liability

The following is based on a Department of Revenue [study](#) of the STO Tax Credit released December 2017:

The Department of Revenue reports on the annual credit usage for the STO Tax Credit in its periodic [Contingent Liabilities Report](#). Based on Table 9 of that report, the following table and graph provide credit redemption history and projections for the STO Tax Credit on a fiscal year basis. The blue bars of the graph indicate the actual credit redemptions, while the red bars are the Department of Revenue projections of future redemptions.

<b>School Tuition Organization Tax Credit History</b>			
* Projected			
<u>Fiscal Year</u>	<u>Tax Credit Redemptions</u>	<u>Fiscal Year</u>	<u>Tax Credit Redemptions</u>
FY 2006	\$ 0	FY 2016	\$ 11,180,439
FY 2007	1,894,943	FY 2017	11,057,597
FY 2008	3,924,079	FY 2018	11,853,041
FY 2009	5,640,524	FY 2019	10,947,197
FY 2010	6,543,329	FY 2020	9,451,208
FY 2011	6,838,230	FY 2021*	13,423,575
FY 2012	6,986,509	FY 2022*	14,122,745
FY 2013	7,970,994	FY 2023*	14,258,986
FY 2014	8,328,260	FY 2024*	14,311,214
FY 2015	10,251,760	FY 2025*	14,329,152



The following table provides the total contributions made to STOs, the amount and number of STO tax credit awards issued, and a breakout of STO tax awards issued to corporate taxpayers within the totals. Additional informational data is provided for the largest STO award issued to a taxpayer, the average STO award issued, and the median STO award issued.

School Tuition Organization Tax Credit Awards								
Fiscal Year	Total Contributions	Total Amount of Awards Issued	Amount of Awards Issued to Corporate Taxpayers	Total Number of Awards Issued	Number of Awards Issued to Corporate Taxpayers	Largest Award Issued	Average Award Issued	Median Award Issued
2006	\$ 3,846,436	\$ 2,499,904	\$ 0	1,125	0	\$ 113,750	\$ 2,222	\$ 650
2007	7,439,827	4,873,883	0	1,850	0	97,500	2,635	650
2008	9,538,522	6,199,728	0	2,830	0	97,500	2,191	650
2009	11,394,228	7,401,373	1,625	3,160	3	124,865	2,342	650
2010	11,538,862	7,496,339	186,021	3,029	18	113,750	2,475	650
2011	11,536,961	7,499,414	89,306	2,835	16	325,000	2,645	650
2012	13,461,567	8,749,061	41,275	3,103	12	266,500	2,820	650
2013	13,461,507	8,748,680	168,582	2,996	17	260,000	2,920	650
2014	18,329,839	11,999,190	615,844	3,708	25	260,000	3,236	975
2015	18,461,535	12,000,000	71,500	3,396	14	130,000	3,534	975
2016	18,461,534	12,006,500	103,610	3,484	19	195,000	3,446	976
2017	18,461,856	12,000,206	150,928	3,054	11	260,000	3,929	1,300
2018	18,380,089	11,947,058	268,190	2,576	13	212,290	4,638	1,300
2019	17,341,242	11,271,807	478,963	3,289	26	213,308	3,427	975

Source: Iowa Department of Revenue, Tax Research Bureau  
As of November 19, 2020

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