
FISCAL TOPICS

Fiscal Services Division

October 20, 2023



Ground Floor, State Capitol Building

Des Moines, Iowa 50319

515.281.3566

Tax Credit: Child and Dependent Care Tax Credit

The Iowa Child and Dependent Care (CDC) Tax Credit is based on the federal Child and Dependent Care Tax Credit and is available to individual taxpayers who have eligible child and dependent care expenses for qualifying children under age 13 or disabled dependents. The refundable Iowa CDC Tax Credit ranges from 30.0% to 75.0% of the federal CDC Tax Credit, depending on the adjusted gross income of the taxpayer. The income limit for claiming the Iowa CDC Tax Credit is \$90,000.

The federal CDC Tax Credit allows taxpayers to reduce tax liability, depending on the income of the taxpayer, by an amount up to 35.0% of \$3,000 in eligible child care expenses for one qualifying child or up to 35.0% of \$6,000 for two or more qualifying children. Eligible expenses for the care of a qualifying dependent must be work-related and must be equal to or less than the earnings of a secondary worker in a household filing jointly.

Tax Credit Background

- Enabling Legislation: The Iowa CDC Tax Credit was enacted in 1977. Effective January 1, 1977, a nonrefundable credit of 5.0% was available to all taxpayers with qualifying children and eligible expenses.
- Iowa Code Citation: Section [422.12C](#) — Individual Income Tax
- Administrative State Agencies: Iowa Department of Revenue
- Sunset Date: None
- Transferable: No
- Refundable: Yes
- Carryforward: Any credits in excess of tax liability can be refunded or credited to tax liability for the following year.
- Tax Review Committee Review Year: 2023

Legislative History

The Iowa CDC Tax Credit became effective January 1, 1977, and provided for a nonrefundable credit of 5.0% available to all taxpayers with qualifying children and eligible expenses. The credit was raised to 10.0% in 1983 and 45.0% in 1986. The credit was made refundable and multiple credit rates were added in 1990. A \$40,000 income limit was introduced in 1993. The income eligibility limit was increased to \$45,000 effective January 1, 2006.

More Information

Department of Revenue Contingent Liabilities Report: tax.iowa.gov/report-category/contingent-liabilities

Department of Revenue Tax Credit Review: tax.iowa.gov/sites/default/files/2019-08/CDC%20and%20ECD%20Evaluation%20Study%202018.pdf

Department of Revenue Tax Credit Users' Manual: tax.iowa.gov/sites/default/files/2022-12/TaxCreditsUsersManual2022.pdf

Legislative Services Agency Individual Income Tax Guide:
www.legis.iowa.gov/docs/publications/LG/711304.pdf

LSA Staff Contact: Evan Johnson (515.281.6301) evan.johnson@legis.iowa.gov

Effective in tax year 2012, the administrative rules were changed to clarify that the Iowa CDC Tax Credit was based on only the federal tax credit that the taxpayer was eligible to claim. During the 2014 Legislative Session, effective for tax year 2015, that was changed so that the Iowa CDC Tax Credit was based on the federal tax credit for which the taxpayer was eligible regardless of whether the taxpayer was able to claim the full amount of the federal tax credit.

During the 2021 Legislative Session, effective January 1, 2021, the income eligibility limit was increased to \$90,000.

Tax Credit Review, Usage, and Future Liability

The following is based on a Department of Revenue (IDR) review of the Iowa CDC Tax Credit released December 2018:

- In tax year 2016, the average Iowa CDC Tax Credit claim was \$258.
- For households reporting a child under age 13 and Iowa net income below \$45,000 on their tax year 2016 return, 16.6% claimed the Iowa CDC Tax Credit.
- In tax year 2016, households with income between \$20,000 and \$29,999 comprised 32.0% of the number of claims and claimed 34.6% of the Iowa CDC Tax Credit dollars.
- In tax year 2016, single parents claimed 86.0% of the Iowa CDC Tax Credit dollars and households with just one child made 65.1% of claims.

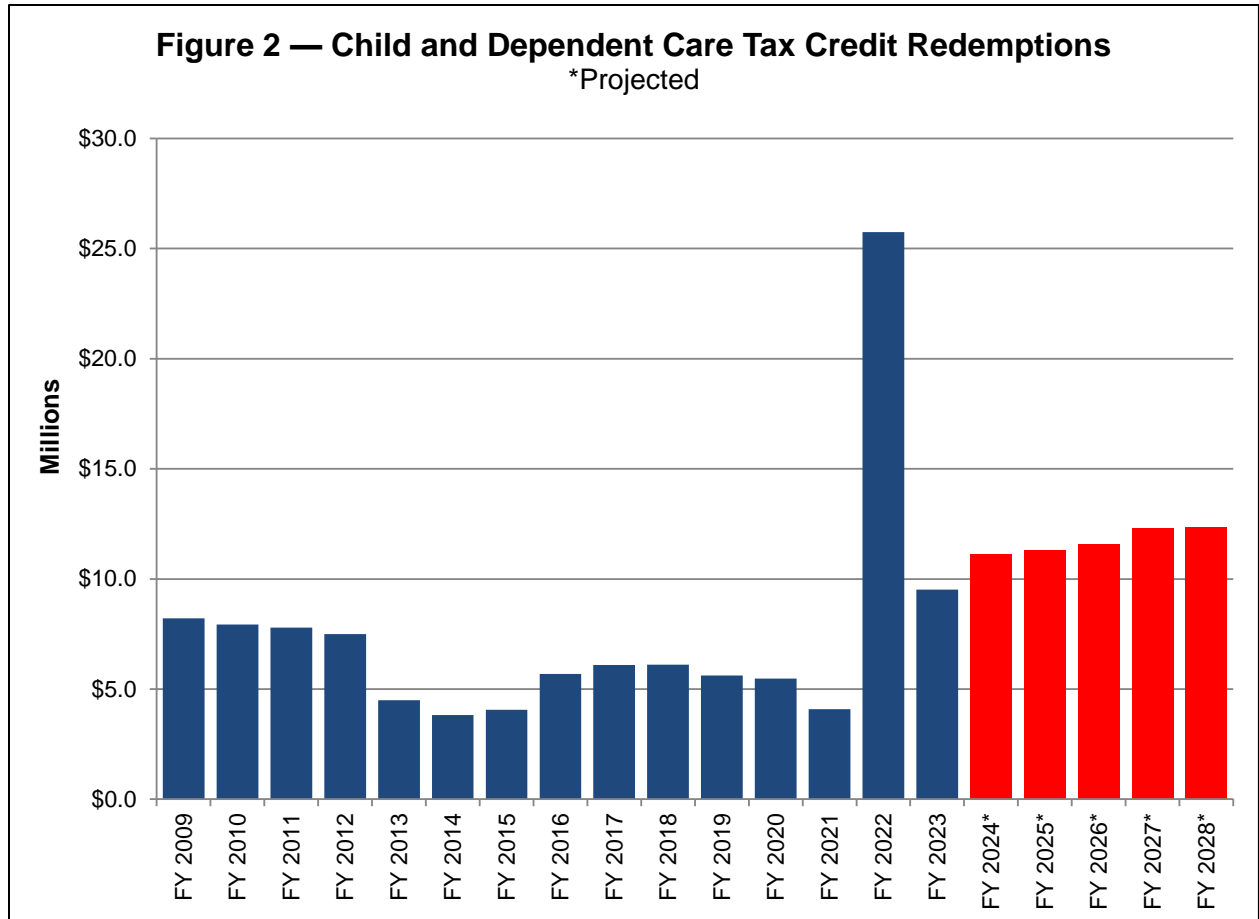
The IDR reports on the annual credit usage for the Iowa CDC Tax Credit in its periodic [Contingent Liabilities Report](#). Based on Table 9 of the report, the following figures provide credit redemption history and projections for the Iowa CDC Tax Credit on a fiscal year basis. The blue bars of **Figure 2** indicate the actual credit redemptions, while the red bars are the IDR projections of future redemptions.

As seen in the figures below, CDC Tax Credit redemptions increased in FY 2022 compared to previous fiscal years. This was the result of two factors. First, the income eligibility limit for the credit was increased from \$45,000 to \$90,000 retroactively effective January 1, 2021, allowing more households to claim the credit. Second, as part of the American Rescue Plan Act (ARPA), the maximum federal CDC Tax Credit award amount was temporarily increased from \$1,050 to \$4,000 for one qualifying individual and from \$2,100 to \$8,000 for two or more qualifying individuals. Since the Iowa CDC Tax Credit awards are based on a percentage of federal CDC Tax Credit awards, Iowa awards mirrored the federal increase.

Figure 1 — Child and Dependent Care Tax Credit History

*Projected

Fiscal Year	Tax Credit Redemptions	Fiscal Year	Tax Credit Redemptions
FY 2009	\$ 8,209,472	FY 2019	\$ 5,610,709
FY 2010	7,934,918	FY 2020	5,476,952
FY 2011	7,797,680	FY 2021	4,094,058
FY 2012	7,494,943	FY 2022	25,743,234
FY 2013	4,488,530	FY 2023	9,513,163
FY 2014	3,813,708	FY 2024*	11,130,845
FY 2015	4,061,279	FY 2025*	11,303,107
FY 2016	5,686,294	FY 2026*	11,554,076
FY 2017	6,086,567	FY 2027*	12,297,550
FY 2018	6,114,110	FY 2028*	12,318,973



Doc ID 1386547