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## FISCAL TOPICS

Fiscal Services Division

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Ground Floor, State Capitol Building

Des Moines, Iowa 50319

515.281.3566

## Tax Credit: School Tuition Organization Tax Credit

The School Tuition Organization (STO) Tax Credit is available to corporate income taxpayers, individual income taxpayers, and estates and trusts. The tax credit is for 75.0% of the amount of a voluntary cash or noncash contribution to an STO that is not designated by the taxpayer to be used for the direct benefit of a specified student.

An STO must have the following characteristics:

- Be a charitable organization in Iowa that is exempt from federal taxation under Section [501\(c\)\(3\)](#) of the Internal Revenue Code.
- Allocate 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.
- Represent more than one school.
- Provide tuition grants to eligible students who are members of households with an annual income that does not exceed an amount equal to four times the most recent federal poverty guidelines published by the United States Department of Health and Human Services.

The STO must initially register with the Iowa Department of Revenue (IDR) and is not required to subsequently reregister unless the STO changes which schools it serves. Additionally, 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.

The IDR will authorize an STO to issue tax credit certificates for the following tax year to the taxpayers that contributed to the STO. The total amount of tax credit certificates authorized is limited each calendar year to an award cap of \$20.0 million. 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.

### 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 Agency: Iowa Department of Revenue
- Sunset Date: None
- Transferable: No
- Refundable: No

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### More Information

Department of Revenue Contingent Liabilities Report: [revenue.iowa.gov/media/4301/download?inline](https://revenue.iowa.gov/media/4301/download?inline)

Department of Revenue Tax Credit Review: [revenue.iowa.gov/media/3355/download?inline](https://revenue.iowa.gov/media/3355/download?inline)

Department of Revenue Tax Credits Users' Manual: [revenue.iowa.gov/media/3380/download?inline](https://revenue.iowa.gov/media/3380/download?inline)

Legislative Services Agency Individual Income Tax Guide:

[legis.iowa.gov/docs/publications/LG/711304.pdf](https://legis.iowa.gov/docs/publications/LG/711304.pdf)

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

- Carryforward: Unused credits may be carried forward for up to five tax years
- Tax Review Committee Review Year: None

### 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 **Figure 1**.

**Figure 1 — STO Tax Credit Limits**

Calendar Year	Total Tax Credit Certificates Authorized for Each Calendar Year
2006	\$ 2,500,000
2007	5,000,000
2008 through 2011	7,500,000
2012 and 2013	8,750,000
2014 through 2018	12,000,000
2019	13,000,000
2020 and 2021	15,000,000
2022 and Beyond	20,000,000

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, and 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. Effective January 1, 2022, the tax credit was increased from 65.0% to 75.0% of the voluntary cash or noncash contribution made by a taxpayer to an STO.

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

The following is based on an IDR review of the STO Tax Credit released in December 2022:

- Since 2010, with the exception of 2016, there have been 12 active STOs covering between 33,000 and 35,000 students across approximately 139 schools.
- Between 2006 and 2021, \$152.3 million in tax credits were awarded for \$231.9 million in contributions.
- The average tuition among schools represented by an STO has increased from \$3,577 in 2017 to \$4,596 in 2021, and the average tuition grant has increased slightly from \$1,690 in 2018 to \$1,763 in 2021.
- In program year 2021, there were 3,367 tax credit awards issued. The average award issued was \$4,455, and the median award issued was \$1,500.
- The IDR estimates the net positive fiscal impact of the tuition grants in the 2021-2022 school year was \$19.1 million. This assumes that 30.0% of tuition grants are issued to students who would otherwise attend public school.

The IDR reports on the annual credit usage for the STO Tax Credit in its periodic [Contingent Liabilities Report](#). Based on Table 8 of that report, the following figures provide credit redemption history and projections for the STO Tax Credit on a fiscal year basis. The blue bars of **Figure 3** indicate the actual credit redemptions, while the red bars are the IDR projections of future redemptions.

**Figure 2 — School Tuition Organization Tax Credit History**

\*Projected

Fiscal Year	Tax Credit Redemptions	Fiscal Year	Tax Credit Redemptions
FY 2011	\$ 7,032,533	FY 2021	\$ 11,891,091
FY 2012	6,980,833	FY 2022	12,721,887
FY 2013	7,889,720	FY 2023	11,847,577
FY 2014	8,180,817	FY 2024	14,983,198
FY 2015	10,213,212	FY 2025	12,165,707
FY 2016	11,180,439	FY 2026*	12,067,669
FY 2017	11,057,597	FY 2027*	12,590,733
FY 2018	11,836,187	FY 2028*	12,669,755
FY 2019	10,519,402	FY 2029*	12,674,646
FY 2020	9,897,078	FY 2030*	12,688,847

**Figure 3 — School Tuition Organization Tax Credit Redemptions**

\*Projected (in Millions)

