Legislative Services Agency
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Fiscal Services Division

Fiscal Topic

Tax Credit: Early Childhood Development Tax Credit

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Purpose

The Early Childhood Development (ECD) Tax Credit is available to individual income taxpayers paying qualifying early childhood development expenses. The ECD Tax Credit is equal to 25.0% of the first $1,000 in eligible expenses paid for each dependent age three through five years old. The credit is available to taxpayers whose net income is less than $90,000. If the taxpayer claims the ECD Tax Credit, the taxpayer cannot claim the State Child and Dependent Care Tax Credit.

Early childhood development expenses that qualify for the credit include the following:

- Services provided to the dependent by a preschool as defined in Iowa Code section 237A.1.
- Books that improve child development, such as textbooks, music and art books, teacher's editions, and reading books.
- Instructional materials required to be used in a lesson activity, such as paper, notebooks, pencils, and art supplies.
- Lesson plans and curricula.
- Child development and educational activities outside the home, such as drama, art, music, and museum activities and the entrance fees for such activities.

Tax Credit Background

- Enabling Legislation: 2005 Iowa Acts, chapter 148 (Early Care, Child Care, Education, Health, and Human Services Assistance Act)
- Iowa Code Citation: Section 422.12C — Individual Income Tax
- Administrative State Agency: Iowa Department of Revenue (IDR)
- Sunset Date: None
- Transferable: None
- 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 Year: None

Legislative History

The ECD Tax Credit became effective January 1, 2006, with an income eligibility limit of $45,000. During the 2021 Legislative Session, the income eligibility limit was increased to $90,000 effective January 1, 2021. During the 2026 Legislative Session, the exclusion of certain religious services, materials, or activities from the definition of early childhood development expenses was removed effective January 1, 2026.

Tax Credit Review, Usage, and Future Liability

The following is based on an IDR review of the ECD Tax Credit released December 2023:

- In tax year 2021, 3,778 claimants claimed the ECD Tax Credit with an average claim of $181.
- In tax year 2021, households with an income below $24,999 comprised 37.5% of claimants and claimed 39.6% of the credit.
- Married households claimed 42.8% of the credit, and taxpayers between the ages of 31 and 35 made 28.6% of the claims.
- Households with just one child made 90.2% of claims.

The IDR reports on the annual credit usage for the ECD Tax Credit in its periodic Contingent Liabilities Report. Based on Table 8 of the report, the following figures provide credit redemption history and projections for the ECD 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.

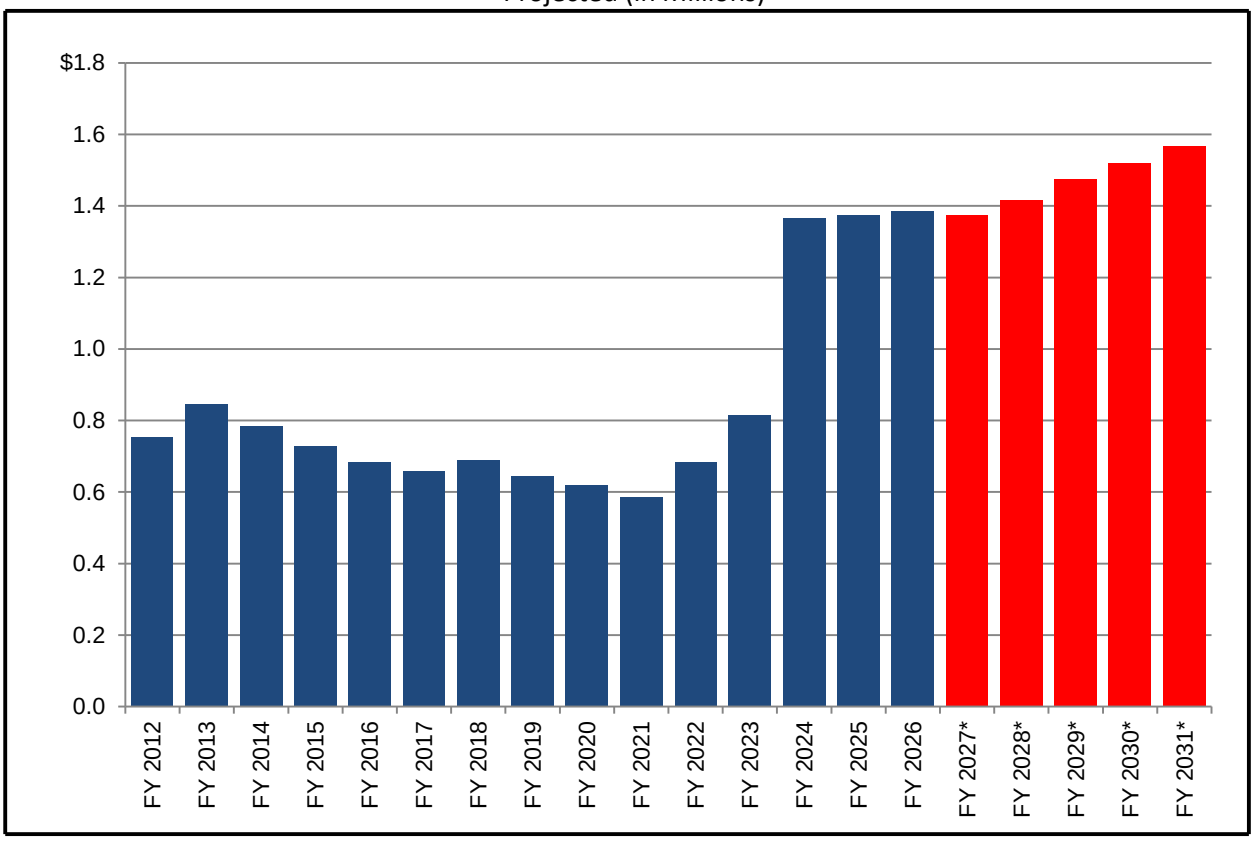
Figure 1 — Early Childhood Development Tax Credit History

*Projected

Fiscal Year	Tax Credit Redemptions	Fiscal Year	Tax Credit Redemptions
FY 2012	$ 753,173	FY 2022	$ 684,626
FY 2013	846,434	FY 2023	816,377
FY 2014	784,165	FY 2024	1,366,903
FY 2015	728,777	FY 2025	1,374,841
FY 2016	683,919	FY 2026	1,385,368
FY 2017	658,405	FY 2027*	1,375,305
FY 2018	688,650	FY 2028*	1,417,022
FY 2019	644,109	FY 2029*	1,475,017
FY 2020	618,398	FY 2030*	1,520,116
FY 2021	587,399	FY 2031*	1,566,895

Figure 2 — Early Childhood Development Tax Credit Redemptions

*Projected (in Millions)



Additional Information

For additional information, visit:

- Iowa Department of Revenue Contingent Liabilities Report
- Iowa Department of Revenue Tax Credit Review
- Iowa Department of Revenue Tax Credit Users' Manual
- Legislative Services Agency Individual Income Tax Guide

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