Legislative Services Agency
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Fiscal Services Division

Fiscal Topic

Tax Credit: Child and Dependent Care Tax Credit

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Purpose and History

The Iowa Child and Dependent Care (CDC) Tax Credit is based on the federal CDC 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 (AGI) of the taxpayer. The income limit for claiming the Iowa CDC Tax Credit is $90,000. If the taxpayer claims the CDC Tax Credit, the taxpayer cannot claim the Early Childhood Development Tax Credit.

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. Beginning in tax year (TY) 2026, the maximum federal CDC Tax Credit increased from 35.0% to 50.0%, with a minimum 20.0% credit dependent on AGI.

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 (IDR)
- 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: None

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.

Effective in TY 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 TY 2015, the law 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.

In 2021 Iowa Acts, chapter 177 (Taxation and Other Provisions Act), 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 an IDR review of the Iowa CDC Tax Credit released December 2023:

- In TY 2021, the average Iowa CDC Tax Credit claim was $703.
- For households reporting a child under age 13 and Iowa net income below $90,000 on their TY 2021 return, 17.4% claimed the Iowa CDC Tax Credit.
- In TY 2021, households with income between $25,000 and $49,999 comprised 34.5% of the number of claims and claimed 35.3% of the Iowa CDC Tax Credit dollars.
- In TY 2021, single parents claimed 58.2% of the Iowa CDC Tax Credit dollars, and households with just one child made 67.1% 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 8 of the report, **Figure 1** details 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. The One Big Beautiful Bill Act (OBBBA) of 2025 further enhanced the federal CDC Tax Credit by increasing the maximum income threshold to receive a 35.0% tax credit of expenses from $15,000 of AGI to $75,000 of AGI per taxpayer beginning in TY 2026, which will increase Iowa tax credit redemptions beginning in FY 2027.

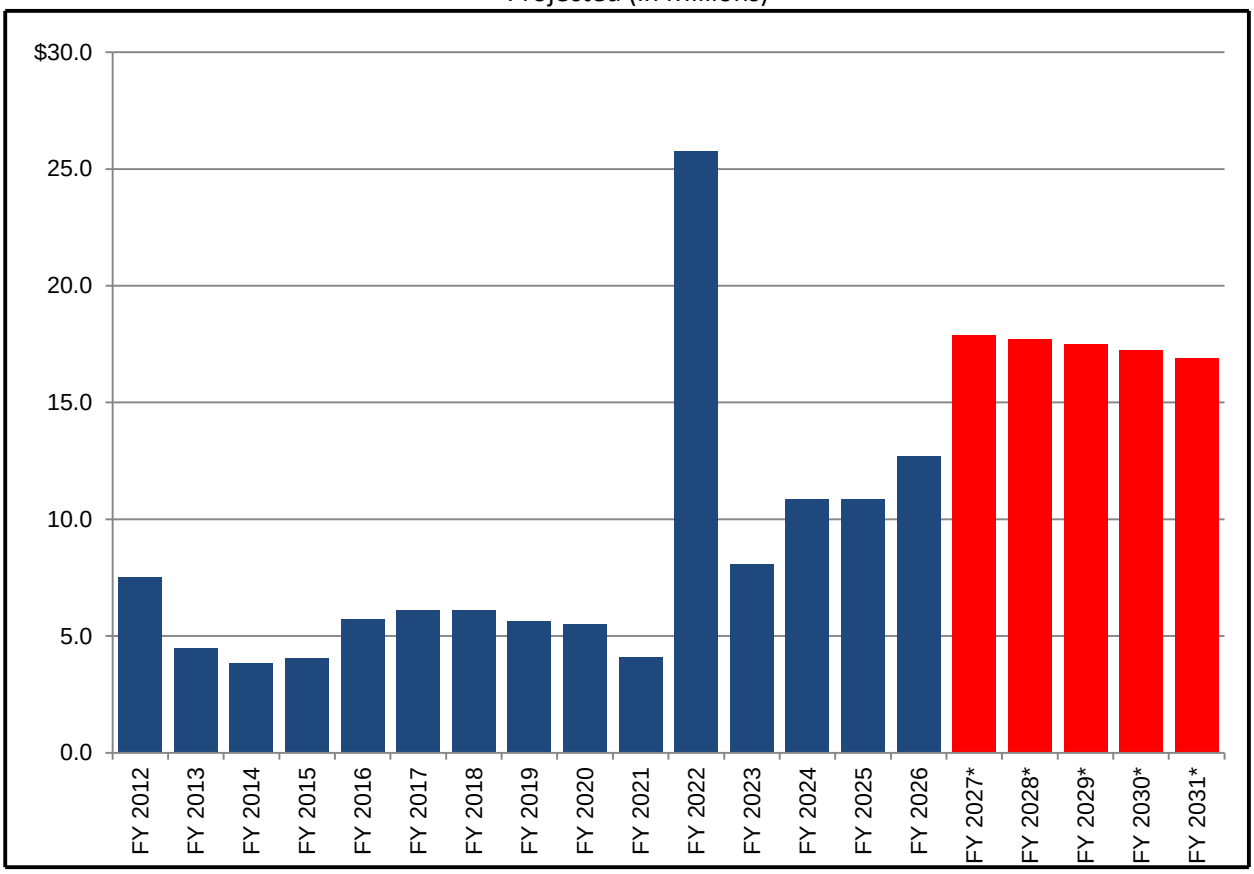
Figure 1 — Child and Dependent Care Tax Credit History

* Projected

Fiscal Year	Tax Credit Redemptions	Fiscal Year	Tax Credit Redemptions
FY 2012	$ 7,494,943	FY 2022	$ 25,743,234
FY 2013	4,488,530	FY 2023	8,049,630
FY 2014	3,813,708	FY 2024	10,832,343
FY 2015	4,061,279	FY 2025	10,829,300
FY 2016	5,686,294	FY 2026	12,691,317
FY 2017	6,086,567	FY 2027*	17,888,364
FY 2018	6,114,110	FY 2028*	17,709,506
FY 2019	5,610,709	FY 2029*	17,489,433
FY 2020	5,476,952	FY 2030*	17,212,469
FY 2021	4,094,058	FY 2031*	16,900,084

Figure 2 — Child and Dependent Care 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 Users' Manual
- Legislative Services Agency Individual Income Tax Guide
- Iowa Department of Revenue Tax Credit Review

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