

Fiscal TOPICS

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Tax Credit: Iowa 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 Child and Dependent Care Tax Credit ranges from 75.0% to 30.0% of the federal Child and Dependent Care Tax Credit, depending on the adjusted gross income of the taxpayer, with a maximum claim of \$1,575 for a household with two or more qualified children or dependents for taxpayers with income under \$10,000.

Federal CDC Tax Credit

The federal CDC Tax Credit is not specifically targeted to low-income taxpayers, although the sliding scale rate structure of the credit provides benefits to those taxpayers. The maximum federal credit that can be claimed by a taxpayer with maximum eligible child care expenses for two qualifying children is \$2,100 if the taxpayer's adjusted gross income (AGI) is below \$15,000. The maximum eligible expenses and the income brackets are not indexed; therefore, each year the real value of these provisions is lower as a result of inflation. While the federal CDC Tax Credit does not have an income limit, the Iowa CDC Tax Credit is not available to families with Iowa income of \$45,000 or over. The Iowa CDC Tax Credit is refundable, meaning if a taxpayer is eligible for the credit but does not have an Iowa tax liability, the taxpayer can receive a refund equal to the amount of the credit.

Tax Credit Review, Usage, and Future Liability

In 2006, raising the Iowa income limit from below \$40,000 to below \$45,000 led to an increase of credit claimants from 33,900 to 39,400 (16.3%) in counts, and an increase in total credit dollars from \$8.2 million to \$8.9 million (8.2%). After 2006, both the counts and credit dollars have been decreasing gradually, which is consistent with the slow growth of the federal Child and Dependent Care Tax Credit in recent years. Eligible expenses for the federal CDC Tax Credit must be work-related to qualify for the credit, and expenses are considered work-related only if the expenses allow the taxpayer (and spouse, if filing jointly) to work or look for work, and if the expenses are for a qualifying child's care. Eligible expenses must be equal to or less than the earnings of a secondary worker in a household filing jointly.

2012 Administrative Rule Change

Effective in tax year 2012, the administrative rules were changed to clarify that the Iowa credit was based on only the federal tax credit that the taxpayer was eligible to claim. For tax years 2012 through 2015, credits are calculated based on the nonrefundable federal credit that the taxpayer is eligible to claim, which is often less than the calculated federal credit. Therefore, taxpayers with no federal tax liability who did not receive any nonrefundable federal Child and Development Care Tax Credit could no longer claim the Iowa Child and Development Care Tax Credit. This change resulted in the number of claims declining by 25.0% and the total amount of claims declining to \$4.5 million. For households filing tax returns, reporting a child under age 14 and income below \$45,000, only 20.0% percent claimed the CDC Tax Credit in tax year 2011. This rate dropped to 16.8% in tax year 2012.

Legislative Changes

During the 2014 Legislative Session, it was clarified that the Iowa credit is based on the federal tax credit for which the taxpayer is eligible, regardless of whether the taxpayer was able to claim the full amount of the nonrefundable federal tax credit. This change is effective for tax year 2016 and later.

Iowa Child and Dependent Care Tax Credit

Child and Dependent Care Tax Credit Claims, Tax Years 2005-2012

<u>Tax Year</u>	<u>Number of Claimants</u>	<u>Change in Number</u>	<u>Total Claimed (In Millions)</u>	<u>Change in Total Claimed</u>	<u>Average Claim Amount</u>
2005	33,917	-1.50%	\$8.20	1.70%	\$243
2006	39,440	16.30%	\$8.90	8.20%	\$226
2007	37,510	-4.90%	\$8.80	-1.30%	\$235
2008	34,907	-6.90%	\$8.20	-6.70%	\$235
2009	33,776	-3.20%	\$7.90	3.30%	\$235
2010	32,964	-2.40%	\$7.80	-1.70%	\$237
2011	31,429	-4.70%	\$7.50	-3.90%	\$238
2012	23,376	-25.60%	\$4.50	-39.90%	\$193

Claimant Characteristics

The Iowa Department of Revenue reports on claimant characteristics in its [Tax Credits Evaluation Study](#). According to Department of Revenue data, in tax year 2011, 7.7% of claimants reported Iowa adjusted gross income of less than \$10,000; 37.1% reported AGI between \$10,000 and \$24,000, and the remaining 55.0% of claimants reported between \$25,000 and \$44,999 in AGI. Claims are reported on a household basis. Approximately one-third of the credit is refunded to claimants. Single parents claimed 81.7% of the credits. Taxpayers aged between 26 and 30 made 29.6% of the claims, and households with just one child made 54.5% of the claims. The age of the oldest qualified child was concentrated between ages 6 and 12. Entry or exit from claiming the CDC Tax Credit is typically due to changes in taxpayers' need for and the availability of child care or preschool. The Iowa Department of Revenue reports just over 40.0% of the new claims or exits from tax credit claims can be explained by income growing beyond or shrinking below the \$45,000 income limit, adding or losing qualifying children due to those children meeting the age requirement, starting a new marriage or ending one, and moving into or out of urban counties.

Tax Credit Background

- Code Citation: Section [422.12C](#) - Individual Income Tax
- Administrative Rules Citation: [701 IAC 42.15](#)
- Administrative State Agency
- Transferable: No. However, for credits claimed by married taxpayers who elect to file separately on a combined return, the Child and Dependent Care Tax Credit shall be prorated to each spouse in the ratio of each spouse's net income to their combined net income.
- Refundable: Yes

More Information

Iowa Department of Revenue Tax Credits Evaluation Study: [Iowa Child and Dependent Care Tax Credit Evaluation Study](#)

Iowa Department of Revenue Tax Credits Users' Manual: [Tax Credits Users' Manual](#)

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