

Tax Credit: Early Childhood Development Tax Credit

The Iowa Early Childhood Development (ECD) Tax Credit is awarded to individuals paying qualifying early childhood development expenses for dependents ages three through five. The ECD Tax Credit is equal to 25.0% of the first \$1,000 in eligible expenses paid for early childhood development for each dependent ages three to five. The credit is refundable and is only available to taxpayers whose net income is less than \$45,000 (combined for married taxpayers). If a taxpayer claims the Child and Dependent Care Tax Credit, the Early Childhood Development Tax Credit cannot be claimed. Nonresident and part-year Iowa residents may claim the credit in full.

Early childhood development expenses that qualify for the credit include:

- Services provided to the dependent by a preschool, as defined in [section 237A.1](#) of the Iowa Code.
- 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.

Early childhood development expenses that do not qualify for the credit include:

- Food, lodging, or membership fees relating to child development and educational activities outside of the home.
- Services, materials, or activities for the teaching of religious tenets, doctrines, or worship, if the purpose of these expenses is to instill those tenets, doctrines, or worship.

The Early Childhood Development Tax Credit went into effect on January 1, 2006. Early Childhood Development Tax Credit claims have increased since the credit program's enactment. Head-of-household filers historically comprise the largest share of ECD claimants by filing status (46.7%) and also the largest share of credits claimed (46.5%). Married joint filers make up the second largest share of ECD claimants (25.8%) and amount claimed (25.7%). ECD claimants have historically been concentrated in income groups exceeding \$10,000, with 38.0% of claimants reporting Adjusted Gross Income (AGI) between \$10,000 to \$24,999, making up 35.0% of claims, and 47.0% of claimants reporting AGI between \$25,000 and \$44,999, making up 52.0% of claims. The majority of ECD claimants (75.0%), have one dependent in the household while households with two dependents make up 11.1% of claimants.

In tax year 2011, 31.0% of claimants claimed the maximum ECD Tax Credit of \$250 for one qualifying child, reflecting eligible expenses of \$1,000 or more. In total, households claiming the maximum credit for qualifying children and expenses made up 34.1% of all claimants.

More Information

Department of Revenue Tax Credits Contingent Liabilities Report:

https://tax.iowa.gov/sites/files/idr/Contingent%20Liabilities%20Report%201016_0.pdf

Tax Credits Program Evaluation Study:

<https://tax.iowa.gov/sites/files/idr/CDC%20and%20ECD%20Tax%20Credits%20Evaluation%20Study.pdf>

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