

Claim of Right Tax Credit

Tax Expenditure Committee – November 18, 2015

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Outline

- ▶ Review the Claim of Right Tax Credit
- ▶ Federal Claim of Right and treatment in neighboring states
- ▶ Claim of Right Deductions and Tax Credit Claims

Claim of Right Tax Credit

- ▶ Administrative credit available for tax years beginning on or after January 1, 1996
- ▶ Taxpayer becomes eligible for the tax credit if they were required to repay income in the current tax year that was reported and taxed on a prior Iowa tax return
- ▶ Refundable and Nontransferable
- ▶ Can only be claimed against individual income tax
- ▶ Alternatively, taxpayer can deduct the repaid income from Iowa AGI

Federal Claim of Right

- ▶ Federal tax law allows for Claim of Right to be taken as a deduction from income or as a tax credit
 - Deduction is equal to the amount of repaid income
 - Credit is equal to the amount of tax paid on the repaid income
- ▶ In order to claim the tax credit, the amount of income repaid must exceed \$3,000
- ▶ If taxpayer qualifies for both, the method that results in paying the least amount of tax should be selected

Claim of Right in Iowa and Neighboring States

- ▶ Iowa and Wisconsin
 - Allow both an income deduction and tax credit
- ▶ Illinois and Nebraska
 - Allow only an income deduction
- ▶ Minnesota and Missouri
 - No provisions for repaid income
- ▶ South Dakota
 - No income tax

Claim of Right Tax Credit Claims

Tax Year	Number of Claim of Right Tax Credit Claims	Amount of Claim of Right Tax Credit Claims	Average Claim of Right Tax Credit Claim
2006	19	\$12,071	\$635
2007	22	\$17,930	\$815
2008	48	\$39,498	\$823
2009	26	\$40,879	\$1,572
2010	33	\$40,851	\$1,238
2011	37	\$26,713	\$722
2012	49	\$62,300	\$1,271
2013*	38	\$26,155	\$688
2014*	18	\$19,791	\$1,100
Total	290	\$286,188	
Average	32	\$31,799	\$985

* Tax year incomplete

Source: Iowa Department of Revenue
IA 148 Tax Credits Schedule

Claim of Right Income Tax Deductions

Tax Year	Number of Claim of Right Income Tax Deductions	Amount of Claim of Right Income Tax Deductions	Average Claim of Right Income Tax Deduction
2012	725	\$2,652,918	\$3,659
2013	94	\$302,968	\$3,223
2014*	57	\$257,191	\$4,512
Total	876	\$3,213,077	
Average	292	\$1,071,026	\$3,668

* Tax year incomplete

Source: Iowa Department of Revenue

Comparing the Deduction to the Tax Credit

- ▶ If the average income deduction was originally taxed at the highest individual income tax rate of 8.98% then the maximum Claim of Right Tax Credit for these taxpayers would be \$329
- ▶ Appears that taxpayers who have repaid larger amounts of income choose to claim the COR Tax Credit instead of take the income tax deduction

Amount of Repaid Income in 2013

- ▶ Deductions and tax credits are predominantly reported by taxpayers with AGI less than \$80,000
- ▶ Based on 2013 Claim of Right Tax Credits and deductions, an estimated \$1.1 million of income is reported as repaid in a given tax year

Questions?