

Senate File 437 - Introduced

SENATE FILE 437

BY WAHLS, RAGAN, LYKAM,
QUIRMBACH, J. SMITH,
MATHIS, CELSI, TRONE
GARRIOTT, GIDDENS,
KINNEY, T. TAYLOR, JOCHUM,
BISIGNANO, BOLKCOM,
BOULTON, DOTZLER, HOGG,
and PETERSEN

A BILL FOR

1 An Act relating to the child and dependent care credit and
2 the early childhood development credit available against
3 the individual income tax, and including retroactive
4 applicability provisions.

5 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

1 Section 1. Section 422.12C, subsection 1, Code 2021, is
2 amended to read as follows:

3 1. The taxes imposed under this subchapter, less the amounts
4 of nonrefundable credits allowed under this subchapter, shall
5 be reduced by a child and dependent care credit equal to the
6 following percentages of the federal child and dependent care
7 credit provided in section 21 of the Internal Revenue Code,
8 without regard to whether or not the federal credit was limited
9 by the taxpayer's federal tax liability:

10 a. For a taxpayer with net income of less than ~~ten~~
11 twenty-five thousand dollars, seventy-five percent.

12 b. For a taxpayer with net income of ~~ten~~ twenty-five
13 thousand dollars or more but less than ~~twenty~~ thirty-five
14 thousand dollars, sixty-five percent.

15 c. For a taxpayer with net income of ~~twenty~~ thirty-five
16 thousand dollars or more but less than ~~twenty-five~~ forty
17 thousand dollars, fifty-five percent.

18 d. For a taxpayer with net income of ~~twenty-five~~ forty
19 thousand dollars or more but less than ~~thirty-five~~ fifty
20 thousand dollars, fifty percent.

21 e. For a taxpayer with net income of ~~thirty-five~~ fifty
22 thousand dollars or more but less than ~~forty~~ sixty thousand
23 dollars, forty percent.

24 f. For a taxpayer with net income of ~~forty~~ sixty thousand
25 dollars or more but less than ~~forty-five~~ sixty-five thousand
26 dollars, thirty percent.

27 g. For a taxpayer with net income of ~~forty-five~~ sixty-five
28 thousand dollars or more, zero percent.

29 Sec. 2. Section 422.12C, subsection 2, paragraph a, Code
30 2021, is amended to read as follows:

31 a. The taxes imposed under this subchapter, less the amounts
32 of nonrefundable credits allowed under this subchapter, may
33 be reduced by an early childhood development tax credit equal
34 to twenty-five percent of the first one thousand dollars
35 which the taxpayer has paid to others for each dependent, as

1 defined in the Internal Revenue Code, ages three through five
2 for early childhood development expenses. In determining the
3 amount of early childhood development expenses for the tax year
4 beginning in the 2006 calendar year only, such expenses paid
5 during November and December of the previous tax year shall
6 be considered paid in the tax year for which the tax credit
7 is claimed. This credit is available to a taxpayer whose net
8 income is less than ~~forty-five~~ sixty-five thousand dollars. If
9 the early childhood development tax credit is claimed for a tax
10 year, the taxpayer and the taxpayer's spouse shall not claim
11 the child and dependent care credit under [subsection 1](#).

12 Sec. 3. Section 422.12C, Code 2021, is amended by adding the
13 following new subsection:

14 NEW SUBSECTION. 5. *a.* Upon determination of the latest
15 cumulative inflation factor, the director shall multiply
16 each net income level set forth in subsection 1 or 2 by this
17 cumulative inflation factor, shall round off the resulting
18 product to the nearest one dollar, and shall incorporate the
19 result into the net income levels in subsection 1 or 2 for each
20 tax year beginning on or after January 1, 2021.

21 *b.* For purposes of this subsection, "*cumulative inflation*
22 *factor*" means the product of the annual inflation factor for
23 the 2021 calendar year and all annual inflation factors for
24 subsequent calendar years as determined by section 422.4,
25 subsection 1, paragraph "*a*". The cumulative inflation factor
26 applies to all tax years beginning on or after January 1 of
27 the calendar year for which the latest annual inflation factor
28 has been determined. Notwithstanding any other provision,
29 the annual inflation factor for the 2021 calendar year is one
30 hundred percent.

31 Sec. 4. RETROACTIVE APPLICABILITY. This Act applies
32 retroactively to tax years beginning on or after January 1,
33 2021.

34 EXPLANATION

35 The inclusion of this explanation does not constitute agreement with

1 the explanation's substance by the members of the general assembly.

2 This bill increases the Iowa net income threshold levels
3 for purposes of calculating the Iowa child and dependent
4 child care tax credit and the early childhood development tax
5 credit available against the individual income tax. The Iowa
6 child and dependent care tax credit is a refundable credit
7 calculated as a percentage of the nonrefundable federal child
8 and dependent care tax credit, depending on the Iowa net income
9 of the taxpayer. The early childhood development tax credit
10 is a refundable credit equaling 25 percent of the first \$1,000
11 which the taxpayer has paid to others for each dependent ages
12 three through five for early childhood development expenses.

13 IOWA CHILD AND DEPENDENT CHILD CARE TAX CREDIT. Currently,
14 there are seven graduated Iowa net income thresholds used to
15 calculate the credit. The bill increases these graduated
16 thresholds, but does not change the percentage of the
17 nonrefundable federal child and dependent care tax credit
18 used to calculate the Iowa child and dependent child care tax
19 credit.

20 Currently, the credit percentages in these seven Iowa
21 net income thresholds range from a high of 75 percent of
22 the federal credit for taxpayers with net income of less
23 than \$10,000, to a low of 30 percent of the federal credit
24 for taxpayers with net income of \$40,000 or more but less
25 than \$45,000. Under the bill, the credit percentages in the
26 thresholds range from a high of 75 percent of the federal
27 credit for taxpayers with a net income of less than \$25,000,
28 to a low of 30 percent of the federal credit for taxpayers with
29 net income of \$60,000 or more but less than \$65,000.

30 The bill also adjusts the future amount of each of the Iowa
31 net income amounts in the seven graduated Iowa net income
32 thresholds by indexing the thresholds to inflation.

33 EARLY CHILDHOOD DEVELOPMENT TAX CREDIT. The bill increases
34 the income threshold determining the eligibility of a taxpayer
35 for the early childhood development tax credit. The bill

1 increases the eligibility threshold from a taxpayer earning
2 \$45,000 per year to \$65,000 per year. By increasing the
3 eligibility threshold, taxpayers earning less than \$65,000 are
4 now eligible to take the early childhood development tax credit
5 equaling 25 percent of the first \$1,000 which the taxpayer has
6 paid to others for early childhood development expenses for
7 each dependent ages three through five. The bill also adjusts
8 the future amount of the net income threshold by indexing the
9 threshold to inflation.

10 APPLICABILITY. The bill applies retroactively to tax years
11 beginning on or after January 1, 2021.