

Senate File 460 - Introduced

SENATE FILE 460

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A BILL FOR

1 An Act relating to the child and dependent and early childhood
2 development tax credits, and including retroactive
3 applicability provisions.

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

1 Section 1. Section 422.12C, subsection 1, Code 2023, is
2 amended by striking the subsection and inserting in lieu
3 thereof the following:

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

11 a. For a taxpayer of net income of less than twenty-five
12 thousand dollars, one hundred percent.

13 b. For a taxpayer with net income of twenty-five thousand
14 dollars or more but less than forty thousand dollars, ninety
15 percent.

16 c. For a taxpayer with net income of forty thousand dollars
17 or more but less than sixty thousand dollars, seventy-five
18 percent.

19 d. For a taxpayer with net income of sixty thousand dollars
20 or more but less than ninety thousand dollars, fifty percent.

21 e. For a taxpayer with net income of ninety thousand dollars
22 or more, zero percent.

23 Sec. 2. Section 422.12C, Code 2023, is amended by adding the
24 following new subsection:

25 NEW SUBSECTION. 5. a. Upon determination of the latest
26 cumulative inflation factor, the director shall multiply
27 each net income level set forth in subsection 1 or 2 by the
28 cumulative inflation factor, shall round off the resulting
29 product to the nearest one dollar, and shall incorporate the
30 result into the net income levels in subsection 1 or 2 for each
31 tax year beginning on or after January 1, 2023.

32 b. For purposes of this subsection, "*cumulative inflation*
33 *factor*" means the product of the annual inflation factor for
34 the 2024 calendar year and all annual inflation factors for
35 subsequent calendar years as determined by section 422.4,

1 subsection 1, paragraph "a". The cumulative inflation factor
2 applies to all tax years beginning on or after January 1 of
3 the calendar year for which the latest annual inflation factor
4 has been determined. Notwithstanding any other provision,
5 the annual inflation factor for the 2023 calendar year is one
6 hundred percent.

7 Sec. 3. RETROACTIVE APPLICABILITY. This Act applies
8 retroactively to January 1, 2023, for tax years beginning on
9 or after that date.

10 EXPLANATION

11 The inclusion of this explanation does not constitute agreement with
12 the explanation's substance by the members of the general assembly.

13 This bill relates to the Iowa child and dependent care tax
14 credit and the early childhood development tax credit available
15 against the individual income tax.

16 IOWA CHILD AND DEPENDENT CARE TAX CREDIT. The Iowa child
17 and dependent care tax credit is a refundable credit calculated
18 as a percentage of the federal child and dependent care tax
19 credit, depending on the Iowa net income of the taxpayer.
20 Currently, there are seven graduated Iowa net income thresholds
21 used to calculate the credit. The bill reduces the number
22 of Iowa net income thresholds from seven thresholds to five
23 thresholds, but increases the Iowa child and dependent care tax
24 credit by increasing the allowable percentage of the federal
25 child and dependent care tax credit that may be used by the
26 taxpayer to calculate the Iowa child and dependent care tax
27 credit.

28 Currently, the credit percentages in these seven Iowa
29 net income thresholds range from a high of 75 percent of
30 the federal credit for taxpayers with net income of less
31 than \$10,000, to a low of 30 percent of the federal credit
32 for taxpayers with net income of \$40,000 or more but less
33 than \$90,000. Under the bill, the credit percentages in the
34 thresholds range from a high of 100 percent of the federal
35 credit for taxpayers with a net income of less than \$25,000,

1 to a low of 50 percent of the federal credit for taxpayers with
2 net income of \$60,000 or more but less than \$90,000.

3 The bill also adjusts the future amount of each of the
4 Iowa net income amounts in the five graduated Iowa net income
5 thresholds by indexing the thresholds to inflation.

6 EARLY CHILDHOOD DEVELOPMENT TAX CREDIT. The early childhood
7 development tax credit is a refundable credit equaling 25
8 percent of the first \$1,000 which the taxpayer has paid to
9 others for each dependent ages three through five for early
10 childhood development expenses, if the taxpayer's income is
11 less than \$90,000. The bill adjusts the future amount of the
12 \$90,000 Iowa net income threshold by indexing the threshold to
13 inflation.

14 APPLICABILITY. The bill applies retroactively to tax years
15 beginning on or after January 1, 2023.