
FISCAL TOPICS

Fiscal Services Division

October 20, 2023



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Tax Credit: Early Childhood Development Tax Credit

The Early Childhood Development (ECD) Tax Credit is available to individual income taxpayers paying qualifying early childhood development expenses. The ECD Tax Credit is equal to 25.0% of the first \$1,000 in eligible expenses paid for each dependent age three through five. The credit is available to taxpayers whose net income is less than \$90,000. If the taxpayer claims the ECD Tax Credit, the taxpayer cannot claim the State Child and Dependent Care Tax Credit.

Early childhood development expenses that qualify for the credit include:

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

Tax Credit Background

- Enabling Legislation: 2005 Iowa Acts, chapter [148](#) (Early Care, Child Care, Education, Health, and Human Services Assistance Act)
- Iowa Code Citation: Section [422.12C](#) — Individual Income Tax
- Administrative State Agency: Iowa Department of Revenue
- Sunset Date: None
- Transferable: None
- Refundable: Yes
- Carryforward: Any credits in excess of tax liability can be refunded or credited to tax liability for the following year.
- Tax Review Committee Year: 2023

More Information

Department of Revenue Contingent Liabilities Report: tax.iowa.gov/report-category/contingent-liabilities

Department of Revenue Tax Credit Review: tax.iowa.gov/sites/default/files/2019-08/CDC%20and%20ECD%20Evaluation%20Study%202018.pdf

Department of Revenue Tax Credit Users' Manual: tax.iowa.gov/sites/default/files/2022-12/TaxCreditsUsersManual2022.pdf

Legislative Services Agency Individual Income Tax Guide:
www.legis.iowa.gov/docs/publications/LG/711304.pdf

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Legislative History

The ECD Tax Credit became effective January 1, 2006, with an income eligibility limit of \$45,000. During the 2021 Legislative Session, the income eligibility limit was increased to \$90,000 effective January 1, 2021.

Tax Credit Review, Usage, and Future Liability

The following is based on a Department of Revenue (IDR) review of the ECD Tax Credit released figures December 2018:

- In tax year 2016, 4,295 households claimed the ECD Tax Credit, with an average claim of \$153.
- For households reporting a child between ages three and five and income below \$45,000 on their 2016 tax year return, only 12.1% claimed the ECD Tax Credit.
- In tax year 2016, households with income between \$15,000 and \$24,999 comprised 24.7% of claimants and claimed 24.0% of the ECD Tax Credit dollars.
- Households with just one child made 83.2% of ECD Tax Credit claims.

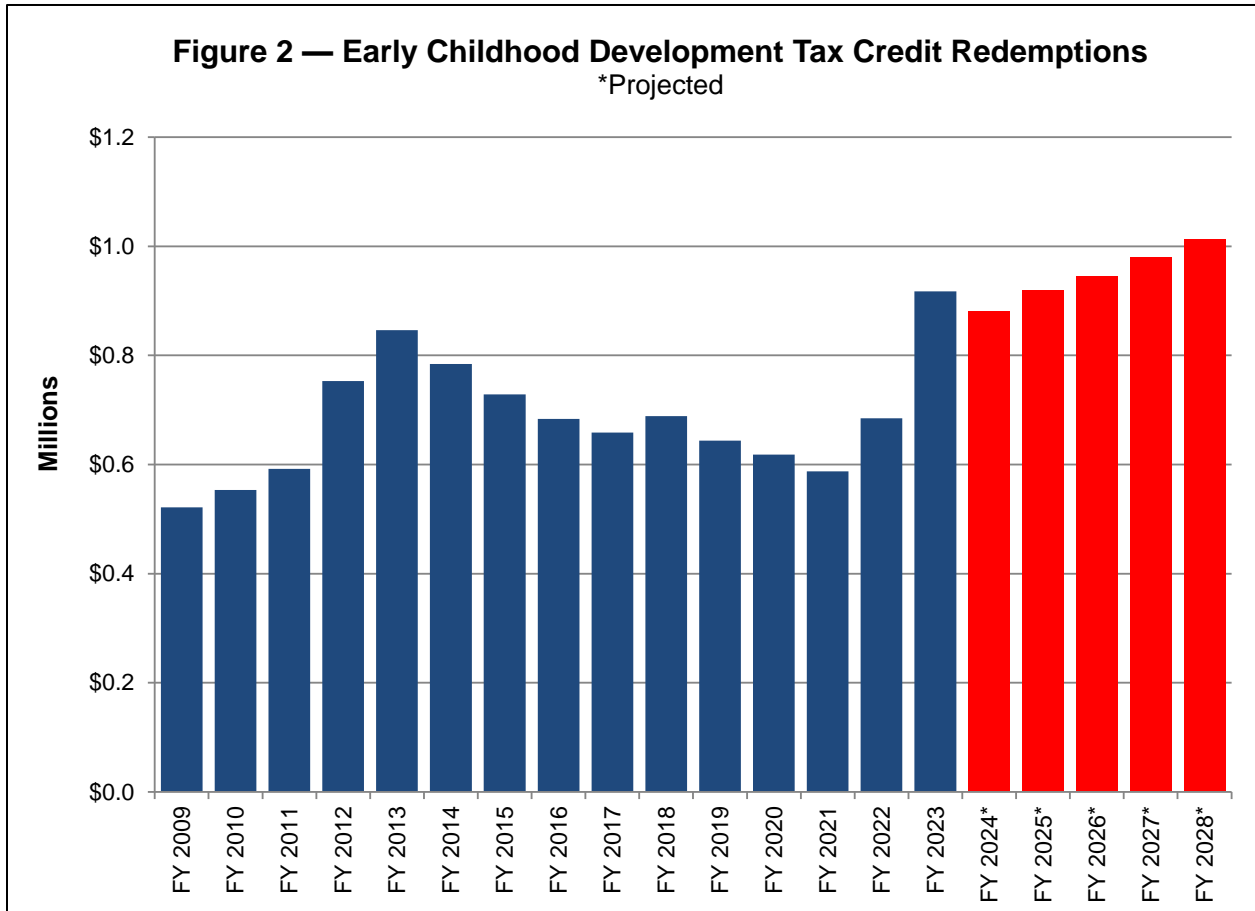
The IDR reports on the annual credit usage for the ECD Tax Credit in its periodic [Contingent Liabilities Report](#). Based on Table 9 of the report, the following figures provide credit redemption history and projections for the ECD Tax Credit on a fiscal year basis. The blue bars of **Figure 2** indicate the actual credit redemptions, while the red bars are the IDR projections of future redemptions.

The ECD Tax Credit increased in FY 2023. This was the result of increasing the income eligibility limit from \$45,000 to \$90,000.

Figure 1 — Early Childhood Development Tax Credit History

*Projected

Fiscal Year	Tax Credit Redemptions	Fiscal Year	Tax Credit Redemptions
FY 2009	\$ 521,513	FY 2019	\$ 644,109
FY 2010	553,533	FY 2020	618,398
FY 2011	591,995	FY 2021	587,399
FY 2012	753,173	FY 2022	684,626
FY 2013	846,434	FY 2023	917,601
FY 2014	784,165	FY 2024*	881,130
FY 2015	728,777	FY 2025*	919,047
FY 2016	683,919	FY 2026*	944,634
FY 2017	658,405	FY 2027*	978,712
FY 2018	688,650	FY 2028*	1,012,892



Doc ID 1386548