Department of Revenue

Iowa's Child and Dependent Care Tax Credit and Early Childhood Development Tax Credit

Tax Credits Program Evaluation Study

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Preface

Iowa Code section 2.48 directs the Department of Revenue to review certain tax expenditures it administers. The schedule provided in this section requires a review in 2023 of the Child and Dependent Care and Early Childhood Development Tax Credits under section 422.12C. This is the Department of Revenue's third evaluation study completed for this expenditure. Prior studies of the Child and Dependent Care and Early Childhood Development Tax Credits were completed in 2013 and 2018. As part of the evaluation, an advisory panel was convened to provide input and advice on the study's scope and analysis. We wish to thank the members of the panel:

Monica Garner, Department of Education
Brent Kreider, Iowa State University
Kimberly Villotti, Department of Education
Amanda Winslow, Department of Health and Human Services
Sean Finn, Common Good Iowa

The assistance of an advisory panel implies no responsibility for the content and conclusions of the evaluation study. This report was also reviewed by Robin Anderson, PhD, State Chief Economist and Division Administrator of the Research and Policy Division. This study and other evaluations of Iowa tax credits can be found on the Tax Credits Tracking and Analysis Program web page on the Iowa Department of Revenue website.

Contents

Preface 2
Executive Summary 5
I. Introduction 7
II. State Tax Programs to Subsidize Child and Dependent Care 7
Child Dependent Care Tax Credit Description 7
Child Dependent Care Tax Credit History 8
III. State Programs to Support Early Childhood Development 8
Early Childhood Development Tax Credit Description 8
IV. Other States' Child and Dependent Care Credits 9
V. Literature Review 10
Child and Dependent Care Affordability 10
Importance of Early Childhood Development (Education) 10
Affordable Childcare for Single Parents 11
VI. Analysis of Child and Dependent Care Tax Credit and Early Childhood Development Tax Credit Claims and Claimants 12
Claims to the Tax Credits 12
Child and Dependent Care Tax Credit Claimant Characteristics 13
Early Childhood Development Tax Credit Claimant Characteristics 14
VII. Economic Impact Analysis 15
Reported Eligible Child Care Expenses in Iowa 15
Persistence Claims of CDC of ECD 15
Utilization Rate 17
Child and Dependent Care Tax Credit Potential Scenarios 17
Micro model 17
Scenario 1 18
Scenario 2 18
VIII. Conclusion 19
References 20
Tables and Figures 21
Table 1. State Programs 22
Table 1. State Programs Continued 23
Table 1. State Programs Continued 24
Table 2. Iowa Child and Dependent Care Tax Credit Claims, Tax Years 1977-2021 25

Figure 1. Child and Dependent Care Tax Credit Claims, Tax Years 2000 - 2021...... 26
Table 3. Iowa Early Childhood Development Tax Credit Claims, Tax Years 2006-2021 27
Figure 2. Early Childhood Development Tax Credit Claims, Tax Years 2006-2021... 28
Table 4. Income Distribution of CDC and ECD Tax Credit Claimants, Tax Year 2021 29
Table 5. Filing Status Distribution of CDC and ECD Tax Credit Claimants, Tax Year 2021........ 30
Table 6. Eligible Dependent Distribution of CDC and ECD Tax Credit Claimants, Tax Year 2021 30
Table 7. Primary Age Distribution of CDC and ECD Tax Credit Claimants, Tax Year 2021........ 31
Table 8. Analysis of versus Dual Income Households for the CDC 32
Table 9. Analysis of Childcare Expenses........ 32
Table 10. Count of Households by Consecutive Years of Either CDC or ECD Claims 33
Table 11. Share of Households with Persistent CDC or ECD Claims by Consecutive Years........ 33
Table 12. Comparison between One-Year and Long-Term CDC or ECD Claimants by Filing Status and Number of Dependents 34
Table 13. Utilization based on dual vs single income for Tax Year 2021 34
Table 14. Utilization based on AGI, Tax Year 2021 35
Table 15. Estimated Distribution of Taxpayers Experiencing Decreases and Increases in Total Tax Liability Under a Scenario to Increase the Iowa CDC Rate to 100% of the Federal Rate 36
Table 16. Translation of Tax Year Estimated Impact to Fiscal Year Estimated Impacts Under a Scenario to Increase the Iowa CDC Rate to 100% of the Federal Rate....... 37
Table 17. Estimated Distribution of Taxpayers Experiencing Decreases and Increases in Total Tax Liability Under a Scenario to Eliminate the CDC Tax Credit........ 38
Table 18. Translation of Tax Year Estimated Impact to Fiscal Year Estimated Impacts Under a Scenario to Eliminate the CDC Tax Credit 39

Executive Summary

The Iowa Child and Dependent Care (CDC) Tax Credit was enacted in 1977 to provide tax relief to taxpayers with eligible child care costs for qualifying children under age 13 or disabled dependents. Today the refundable Iowa CDC Tax Credit ranges from 75 to 30 percent of the federal CDC Tax Credit depending on the adjusted gross income of the taxpayer, with a maximum claim of $1,576 for a household with two or more qualified children or dependents for taxpayers with net income under $10,000.

The Iowa Early Childhood Development (ECD) Tax Credit was enacted in 2006 to provide tax relief to taxpayers with eligible early childhood development expenses for qualifying children between ages 3 and 5. This refundable credit is equal to 25 percent of the first $1,000 in eligible expenses, resulting in a maximum claim of $250 for each qualifying child.

Both credits can only be claimed by households with Iowa adjusted gross income below $90,000. Taxpayers can claim only one of these two credits in a tax year.

The major findings of the study are these:

Federal Child and Dependent Care Tax Credit

- The nonrefundable federal Child and Dependent Care Tax Credit was created in 1976, today it allows taxpayers to reduce tax liability, depending on the income of the taxpayer, by an amount between 35 and 20 percent of $3,000 in eligible child care expenses for one qualifying child or $6,000 for two or more qualifying children.

- Qualifying dependents include children aged 13 and under as well as spouses or dependents who are disabled.

- To be eligible, expenses for the care of a qualifying dependent must be work-related, where they allow the taxpayer (and the spouse if filing jointly) to work or look for work. Eligible expenses must be equal to or less than the earnings of a secondary worker in a household filing jointly.

Characteristics of Child and Dependent Care Tax Credit Claimants

- For tax year 2021, 36,567 claimants claimed $25.7 million in CDC Tax Credits. The average CDC claim was $703.

- In tax year 2021, during the 2021 legislative session, the qualifying income level was increased to income of less than $90,000, resulting in the number of claims increasing by 152 percent and the total amount of claims increasing 529 percent.

- For households reporting a child under age 13 and Iowa net income below $90,000 on their tax year 2021 return, only 17.4 percent claimed the CDC Tax Credit.

- In tax year 2021, households with income between $25,000 and $49,999 comprised 34.5 percent of the number of claims and claimed 35.3 percent of the tax credit dollars.

- Single/Head of Household parents accounted for 58.2 percent of CDC claimants in tax year 2021. Taxpayers with ages between 31 and 35 made 28.3 percent of the claims. Households with just one child made 67.1 percent of claims.

Eligible Child Care Costs

- Eligible child care expenses for qualifying children reported by Iowans on their federal returns totaled $678.2 million in tax year 2021. On average, households reported eligible child care costs of $4,564 for qualifying children, limited by the caps, or $3,083 for each child.

- Iowa CDC claimants reported that an average of 18.7 percent of eligible child care costs are covered by their claims to the federal CDC Tax Credit and Iowa CDC Tax Credit when expenses are capped.

Characteristics of Early Childhood Development Tax Credit Claimants

- The ECD Tax Credit claims increased from $0.5 million in 2006 to $0.9 million in 2012 before experiencing a steady decline through 2020. In tax year 2021, 3,778 claimants claimed $0.68 million in credits with an average claim of $181.

- In tax year 2021, households with income below $24,999 comprised 37.5 percent of claimants and claimed 39.6 percent of the credit.

- Married households claimed 42.8 percent of the credits. Taxpayers aged between 31 and 35 made 28.6 percent of the claims. Households with just one child made 90.2 percent of claims.

Persistence of Child and Dependent Care and Early Childhood Development Tax Credits

- Of all households making either CDC or ECD claims in tax year 2021, 76.3 percent of households claimed either the CDC or ECD in tax year 2021 but not in 2020, and 9.7 percent claimed either the CDC or ECD in tax years 2021 and 2020, but not 2019.

- Long-term CDC or ECD claimants, taxpayers with claims in five consecutive tax years from tax year 2012 through 2020, predominatly filed as head of household, 86.2 percent in tax year 2020, while only 7.4 percent of claimants were married in tax year 2020. In contrast, 38.7 percent of one-year claimants, taxpayers with only one CDC or ECD claim between tax years 2012-2020 (before the rule change), filed as married.

Utilization and Dual Income versus Single Income Households

- Across the state, 17.4 percent of taxpayers identified with qualifying dependents and income claimed a Child Dependent Care Tax Credit in tax year 2021.

- Dual income households account for 35.2 percent of CDC claims (approximately 13,000). However, they account for 84.1 percent of married claimants. $8.3 million in CDC credits were claimed by dual income households, accounting for 32.4 percent of amount claimed.

I. Introduction

Iowa offers two tax credits for low-income families with young children to help with the costs of child care or preschool. The Child and Dependent Care (CDC) Tax Credit assists working parents with expenses for the care of a qualifying individual. The Early Childhood Development Tax Credit helps parents with preschool expenses for children aged three to five. Taxpayers are allowed to claim only one of these two credits in one tax year.[1]

The CDC Tax Credit is calculated as a percent of the federal CDC Tax Credit ranging from 75 to 30 percent with the rate falling as income rises. Since tax year 2021, the Iowa credit not available to families with Iowa net income of $90,000 or over. Unlike the federal credit, the Iowa credit is refundable, which means if a taxpayer is eligible for the credit but has no Iowa tax liability the taxpayer can receive a refund equal to the credit.

The ECD Tax Credit is equal to 25 percent of the first $1,000 in eligible expenses paid for early childhood development for each dependent aged 3 to 5. Like the CDC Tax Credit, the ECD Tax Credit is only available to taxpayers whose Iowa income is less than $90,000, and it is also refundable.

II. State Tax Programs to Subsidize Child and Dependent Care

Child Dependent Care Tax Credit Description

This credit is available to individual taxpayers who have eligible child and dependent care expenses. A qualifying child[2] must be under age 13; a qualifying dependent can be any age but are physically or mentally incapable of self-care. Eligible taxpayers had net income less than $40,000 for tax years beginning on or after January 1, 1993, and before January 1, 2006. Starting with tax year January 1, 2006 the credit is available for

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[1] Found in Iowa Code 422.12, the processing and review of claims to these two tax credits is handled by the Iowa Department of Revenue (IDR) as part of its normal examination and audit programs.

[2] A dependent qualifying child who was under age 13 when the care was provided,
A spouse who was physically or mentally incapable of self-care and lived with the taxpayer for more than half of the year, or
An individual who was physically or mentally incapable of self-care, lived with the taxpayer for more than half of the year, and either: (a) was their dependent; or (b) could have been their dependent except that he or she received gross income of $4,400 or more, or filed a joint return, or the taxpayer (or the taxpayer's spouse, if filing jointly) could have been claimed as a dependent on another taxpayer's 2022 return.

taxpayers with income less than $45,000. For tax years beginning on or after January 1, 2021, the credit is available to taxpayers with income less than $90,000. The credit is based on a percentage of the federal credit for child and dependent care expenses. The federal computation of Child and Dependent Care Expenses is contained in Publication 503 which is published by the Internal Revenue Service. For tax years 2012 through 2015, credits were calculated based on the nonrefundable federal credit that the taxpayer was eligible to claim which was often less than the calculated federal credit. The percentages vary depending on the amount of Iowa net income.

• Net income less than $10,000: 75 percent

• Net income of $10,000 to $19,999: 65 percent

• Net income of $20,000 to $24,999: 55 percent

• Net income of $25,000 to $34,999: 50 percent

• Net income of $35,000 to $39,999: 40 percent

• Net income of $40,000 to $89,999: 30 percent

If the taxpayer claims the Child and Dependent Care Tax Credit, the taxpayer cannot claim the Early Childhood Development Tax Credit.

Child Dependent Care Tax Credit History

This program went into effect on January 1, 1977. A nonrefundable credit of 5 percent was available to all taxpayers with qualifying children and eligible expenses. The credit was raised to 10 percent in 1983 and 45 percent in 1986. Multiple credit rates were added in 1990 and the credit was made refundable. In 1993, a $40,000 income limit was introduced. The income eligibility limit was increased to $45,000 effective January 1, 2006. Effective in tax year 2012, the administrative rules were changed to clarify that the Iowa credit was based on only the federal tax credit that the taxpayer was eligible to claim. During the 2014 legislative session, it was clarified that the Iowa credit is based on the federal tax credit for which the taxpayer is eligible regardless of whether the taxpayer was able to claim the full amount of the nonrefundable federal tax credit. The change is effective for tax year 2015 and later. During the 2021 legislative session, the qualifying income level was increased to income of less than $90,000.

III. State Programs to Support Early Childhood Development

Early Childhood Development Tax Credit Description

The Early Childhood Development Tax Credit is equal to 25 percent of the first $1,000 of qualifying early childhood development expenses paid for each dependent from the ages of three through five. Prior to tax year 2021, the credit was only available to taxpayers whose net income is less than $45,000. For tax years beginning on or after January 1, 2021, the credit is available to taxpayers whose net income is less than $90,000. If the taxpayer claims the Early Childhood Development Tax Credit, the taxpayer cannot claim the state Child and Dependent Care Tax Credit. Early childhood development expenses that qualify for the credit include the following:

• Services provided to the dependent by a preschool, as defined in Section 237A.1, Code of Iowa

• 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

IV. Other States' Child and Dependent Care Credits

Twenty-five states, including Iowa, have a dependent care tax credit to help parents with the cost of child care (See Table 1). Of these 25 states, 21 of them are some form of a percentage of the Federal Child and Dependent Care Tax Credit. Four other states (Hawaii, Maryland, New Mexico, and Oregon) have their own independent child care tax credit program. Another four states (Idaho, Massachusetts, Montana, and Virginia) allow parents a tax deduction for some of their child care expenses. These credits are designed to help make child care more affordable for parents.

Hawaii's tax credit is calculated as a percentage of qualifying expenses, not as a percentage of the federal credit and their credit is fully refundable. South Carolina's credit is only 7 percent of the federal child and dependent care tax credit (lowest of all the percent of the federal credit states). The maximum credit allowed in South Carolina is $210 for one child or $420 for two or more children.

For states that border Iowa, only Minnesota, Nebraska, and Wisconsin have a child and dependent care tax credit. Minnesota's credit is equal to the federal credit with a phase out as income increases. Nebraska's credit is equal to the federal credit with an income limit of $29,000. Wisconsin's adopted a child care credit in 2022. Wisconsin's credit is 50 percent of the federal credit and is not refundable.

V. Literature Review

Child and Dependent Care Affordability

Childcare affordability is a crucial topic that significantly impacts families, the workforce, and the economy as a whole. As more parents enter or remain in the workforce, the accessibility and cost of childcare are central concerns. The rising cost of childcare has created financial burdens for many families. The expenses associated with quality childcare can often surpass the cost of rent or mortgage payments (Gould, et al., 2019). This reality places parents, particularly those with lower incomes, in a difficult position where they must decide between working and covering childcare expenses (Gould, et al., 2019). The high costs can also disproportionately affect single parents, who may find it even more challenging to manage work and family responsibilities.

Childcare affordability has far-reaching economic consequences. When parents are forced to choose between work and childcare due to high costs, it can result in a reduction of the workforce, particularly among women (Landivar, Ruppanner, Scarborough, 2021). This is known as the "motherhood penalty," where women's career trajectories are negatively impacted due to childcare constraints (Landivar, Ruppanner, Scarborough, 2021). Also, a lack of affordable childcare options can hinder economic growth by limiting the potential labor force and reducing overall productivity. Tax credits and financial assistance programs can help alleviate the burden on low-income families. Governments and employers can collaborate to implement flexible work arrangements, such as remote work or flexible hours, to accommodate parental responsibilities (Landivar, Ruppanner, Scarborough, 2021). Investment in public childcare facilities and early childhood education can also make quality care more accessible and affordable for families.

Some believe that government intervention is pivotal in solving childcare affordability. States with strong social support systems provide tax credit programs or deductions for childcare costs, contributing to higher female workforce participation and reduced poverty rates (Gould, et al., 2019). Others believe that policies that ensure higher wages for childcare workers are just as important. They believe that as competitive salaries attract skilled professionals to the field, it will result in better care quality for children (Donaghue, 2017).

The issue of childcare affordability is a complex challenge that affects families, the workforce, and the economy. The high costs of childcare create barriers for parents, particularly women, to fully participate in the workforce.

Importance of Early Childhood Development (Education)

Research shows that early childhood education (ECE) plays an important role in shaping the foundation of a child's development and future success. Early childhood education refers to the structured learning experiences provided to children before they enter formal schooling. Research shows that the first few years of a child's life are critical for brain development, socialization, and the acquisition of essential skills (Donaghue, 2017). ECE programs offer a structured environment that fosters cognitive, social, emotional, and physical growth. Quality ECE sets the stage for lifelong learning, contributing to improved school readiness and academic achievement (Donaghue, 2017).

Research shows the various benefits associated with early childhood education. Children who participate in quality ECE programs tend to exhibit stronger cognitive and language skills, better problem-solving abilities, and enhanced social and emotional development. Also, ECE can help narrow achievement gaps between children from different socio-economic backgrounds, setting a more equal footing for their educational journeys (Cascio, 2021).

Access to high-quality early childhood education can be a challenge for many families. Financial constraints, lack of available programs, and disparities in program quality can limit accessibility. The impact of early childhood education extends far beyond the early years. Children who participate in quality ECE are more likely to perform well in school, graduate from high school, and pursue higher education (Cascio, 2021). They also exhibit greater socio-emotional skills, leading to improved relationships and increased resilience. In the long term, societies that prioritize ECE can experience reduced crime rates, improved health outcomes, and a stronger workforce (Cascio, 2021).

By providing children with access to high-quality ECE programs, states can lay the foundation for future success in academics, social interactions, and life in general. Research shows that governments, educators, families, and communities collaborate to ensure that all children have the opportunity to benefit from early childhood education, thus contributing to a more equitable and prosperous future for individuals and society (Cascio, 2021).

Affordable Childcare for Single Parents

Childcare affordability poses unique challenges for single mothers, impacting their ability to participate in the workforce and provide for their families. Single mothers often face a dual challenge of managing both work and parenting responsibilities on their own. The high cost of childcare can be a significant barrier for them to maintain stable employment. Juggling work schedules with childcare arrangements can be especially challenging, as single mothers may not have the flexibility to balance both effectively (Stephens, Helms, 2020). Additionally, the financial burden of childcare expenses can limit their ability to invest in education or skill development, further hindering their career advancement (Stephens, Helms, 2020).

The inability to access affordable childcare has profound consequences for single mothers and their families. Many single mothers are forced to make difficult decisions, such as reducing working hours or leaving the workforce altogether to care for their children. This not only impacts their financial stability but can also lead to long-term career setbacks. The motherhood penalty, where women's career trajectories are negatively affected by childcare constraints, is particularly pronounced among single mothers (Stephens, Helms, 2020). The lack of affordable childcare options can perpetuate cycles of poverty and limit upward mobility for both single mothers and their children (Stephens, Helms, 2020).

VI. Analysis of Child and Dependent Care Tax Credit and Early Childhood Development Tax Credit Claims and Claimants

This section of the evaluation study analyzes the data available to the Iowa Department of Revenue as it relates to the Child Dependent Care and Early Childhood Development Tax Credit claims. This section is separated into subsections: claimant characteristics, which is comprised of demographic information available in tax return data; and claim data, which is comprised of data about the utilization of the tax credit. All dollar amounts in this chapter were reported in nominal terms with no adjustment for inflation.

The main data source used in this study is Iowa individual income tax returns which include taxpayers' income, tax credits claimed, and tax liability. The taxpayers' age, county of residence, number of dependents, and the ages of up to four dependents are also available. Unfortunately, other demographic measures such as educational attainment, gender, and race of taxpayers are not available. The analysis focuses on tax year 2021 as that is the most recent year of complete return data.

Claims to the Tax Credits

Between 1977 and 2021, the total amount of the Iowa CDC Tax Credit claims increased from $1.6 million to a high of $15.5 million in 1988 then fell to $4.1 million in 2020 before increasing to $25.7 million in 2021 (see Table 2 and Figure 1).[3] The number of taxpayers claiming the CDC Tax Credit increased to a high of 176,800 in 1988 when the credit had no income limit, before declining to 14,488 in 2020, when only those Iowa taxpayers with Iowa net income below $45,000 and some federal tax liability were eligible for the Iowa tax credit (prior to 1984, data for the number of claims are not available). In 2021, the number of claims increased massively (152.4%) to 36,567 claimants as the income threshold was raised to $90,000. The number of claimants presented here is on a taxpayer basis, thus households filing married separately on the same return were counted as two taxpayers if both made a CDC Tax Credit claim.[4] The average amount claimed per return increased from $66 in 1984 to $243 in 2005, falling to $192 in 2012 and reaching a high of $703 in 2021. In 2021, the income threshold was raised and qualifying expenses eligible for the credit increased from 35 percent to 50 percent (see the following paragraph for more information).

The increase in CDC claims and dollar amount claimed in Tax Year 2021 is related to the combination of Iowa legislative changes as-well-as federal legislative changes. The State of Iowa increased the income limit threshold from $45,000 to $90,000, while the Federal credit increased the amount of qualifying expenses from $3,000 to $8,000 for one qualifying person and from $6,000 to $16,000 for two or more qualifying individuals. The percentage of qualifying expenses eligible for the credit increased from 35 percent to 50 percent.

[3] In this section, all amounts provided are nominal (not adjusted for inflation).
[4] Historical claimant counts prior to 1995 are only available from the IDR Individual Income Tax Annual Statistical Reports which present tax credit claim counts on an individual taxpayer basis.

As indicated above, changes in the tax provisions for the federal and Iowa CDC have caused variation in claim numbers and amounts over the history of the tax credit. The second largest increase in the total amount of claims, from $3.5 million to $8.1 million (134.4%), occurred between 1982 and 1983, when the Iowa credit percentage linked to the federal credit rose from 5 percent to 10 percent. Between 1992 and 1993, the number of claims decreased dramatically from 145,300 to 67,800 (-53.3%). Beginning in 1993, claims to the Iowa CDC were limited to households with income below $40,000. The introduction of an income limit also decreased the total claimant amount from $10.4 million to $7.9 million (-24.0%). However, the average claim experienced the second largest increase in 1993 from $72 to $117 (62.8%) because higher income claimants previously eligible for 30 percent or less of the federal credit were no longer qualified to claim the Iowa CDC.

In 2003, the federal CDC expansion explains the increase in the total amount claimed from $6.2 million to $8.4 million (35.5%). In 2006, raising the Iowa income limit to $45,000 led to an increase of claimants from 33,900 to 39,400 (16.3%) and an increase in total credits from $8.2 million to $8.9 million (8.2%). An administrative rule change effective in 2012 clarified that the Iowa credit can only be claimed if the taxpayer was eligible to receive a federal credit. Subsequently, the number of claims dropped approximately one quarter and total claims dropped 40 percent. With the expansion of eligibility to again include those who have no federal tax liability effective for tax year 2015, the number of claims increased by 7.7 percent and the total dollar amount of claims increased 40.1 percent.

Both the number of taxpayers making claims and the total amount of claims increased since the enactment of the Early Childhood Development Tax Credit in 2006 through 2012, likely reflecting growing taxpayer awareness. In 2007, the second year after enactment of the ECD, the number of claims measured on an individual taxpayer basis rose from 3,507 to 3,790 (8.1%) and total claims increased by $45,000 (10.5%) from $0.46 million to $0.51 million (see Table 3 and Figure 2). The largest increase in claims occurred between 2010 and 2011; the number of claims increased from 4,303 to 5,112 (18.8%) and total claims rose from $0.59 million to $0.75 million (26.7%).

The number of ECD claimants steadily decreased from its high of 5,768 in 2012 down to 3,240 claimants in 2020 while total claims decreased from $0.85 million to $0.59 million in 2020. The largest decrease in claims occurred between 2013 and 2014; the number of claims decreased from 5,443 to 4,849 (10.9%) and the amounts of claims fell from $0.8 million to $0.7 million (7.0%). There have been no policy changes to explain the changing patterns in usage.

Child and Dependent Care Tax Credit Claimant Characteristics

In tax year 2021, 3.2 percent of claimants reported Iowa adjusted gross income less than $10,000, 12.2 percent reported AGI between $10,000 and $24,999, 34.5 percent reported AGI between $25,000 and $49,999, 28.4 percent reported AGI between $50,000 and $74,999, and the remaining 21.3 percent of claimants reported between $75,000 and $90,000 in AGI (see Table 4). Unlike prior analysis, claims here were reported on a household basis; taxpayers filing married separate on the same return with two claims were counted as one household. In terms of the amount of credits claimed, 50.5 percent was claimed by households with AGI less than $45,000. The pattern of the average CDC claim by income group shows the structure of the CDC as it relates to income, with the average credit being higher at lower income levels and then falling as the credit rate phases down.

Head of household filers made up the largest share of CDC claims by filing status (52.9%), followed by married filing separately on combined returns (35.7%), married joint filers (6.1%), single filers (5.2%), and qualifying widow(er) (0.2%) (see Table 5). In total, unmarried taxpayers - single, head of household or qualifying widow(er) - comprised 58.2 percent of all CDC claimants, while married filers accounted for 41.8 percent. When viewed by amount of credits claimed by filing status, taxpayers filing as head of household claimed the largest share (54.5%). Taxpayers using married filing separately on combined returns, who account for the second largest share of households claiming the credit, also had the second largest share of the amount of credits claimed (33.2%).

The majority of CDC claimants had one dependent (67.1%) and just over one-fourth had two dependents (25.9%), while households with three or more dependents made up 6.9 percent of claimants (see Table 6). In terms of amount of credits claimed, households with one or two dependents claimed the largest shares of credit dollars (56.7% and 34.0% respectively). The highest average household tax credit claim of $949 was made by households with four dependents.

Taxpayers making CDC claims were concentrated in the age groups of 26-30 and 31-35 (defined using the primary taxpayer's age). The plurality of claims was made by households where the primary taxpayer was between ages 31 and 35, both in terms of the number of claims (28.3%) and in terms of the amount of credits claimed (30.0%) (see Table 7). In addition, one-fourth of all claims (25.5%) and dollars claimed (27.4%) were made by households in which the taxpayer was between the ages of 26 and 30. This is not surprising because these taxpayers were most likely to have young children at home.

Dual income households account for 35.2 percent of CDC claims (approximately 13,000). However, they account for 84.1 percent of married claimants. $8.3 million in CDC credits were claimed by dual income households, accounting for 32.4 percent of amount claimed. Conversely, single income married households account for 6.4 percent of CDC claims (approximately 2,000). They account for 15.2 percent of married claimants. $1.7 million in CDC credits were claimed by single income married households, accounting for 6.8 percent of amount claimed (See Table 8).

Early Childhood Development Tax Credit Claimant Characteristics

ECD claims distribution across the income groups were more heavily favored towards the lower income ranges, with 13.7 percent of claimants reporting AGI below $10,000, and roughly eight percent of claimants in each of the other income groups through $45,000. As income in each of the income groups between $45,000 and $90,000 increased, the number of households decreased steadily from a high of 4.2 percent to a low of 2.2 percent (see Table 4). Claims were also skewed toward the bottom of eligible taxpayers. Claimants with AGI below $25,000, made 37.5 percent of claims, and 39.6 percent of dollar amount of claims.

Like the CDC claimants, head of household filers made up the largest share of ECD claimants by filing status (53.5%) and also the largest share of credits claimed (55.2%) (see Table 5). Unlike CDC claimants, married joint filers made up the second largest share of ECD claimants (27.6%) and amount claimed (26.3%). Taxpayers filing married separately on combined returns were the third largest share of claimants (15.2%) and amount claimed (14.7%). The higher share of married joint filers as ECD claimants likely reflects that one-earner, married households having children in preschool can claim the ECD but they were not qualified to claim the CDC. In total, unmarried taxpayers made 57.2 percent of the claims and 59.0 percent of total credits claimed.

The majority of ECD claimants had one dependent in the household (90.2%) while households with two dependents made up 9.3 percent of the claimants (see Table 6). The majority of claims were made by households where the taxpayers were between the ages of 31 and 35, both in terms of the number of claims (28.8%) and in terms of the amount of credits claimed (28.6%) (see Table 7). Primary taxpayers aged 26-30 had the second largest share of the claims (27.2%) and the amount claimed (27.5%). These households were most likely to have preschool-age children.

VII. Economic Impact Analysis

Reported Eligible Child Care Expenses in Iowa

Federal Form 2441 provides some information about eligible child care expenses. Data from the form is available for claimants who filed their Iowa return electronically with their federal electronic return included. For tax year 2021, 148,593 households (including those who were not eligible to claim the Iowa CDC), or 8.8 percent of Iowa households, reported positive child care expenses on Form 2441 (see Table 9). The eligible child care expenses for qualifying children totaled $678.2 million. On average, a household paid $4,564 for child care for their qualifying children or $3,083 for each child. In tax year 2021, combined federal and state CDC claim amounts by household ranged from $1 to $9,814. For those taxpayers filing electronic returns making Iowa CDC claims, tax credits claimed were compared to the child care expenses reported on Form 2441. Combining federal CDC Tax Credit claims with Iowa CDC Tax Credit claims, it is found that households, on average, have 18.7 percent of their qualified expenses covered by the two credits in TY 2021 (see Table 9).

Persistence Claims of CDC of ECD

Although it is interesting to consider trends in total credit claims and characteristics of those claiming the credits in the most current tax year to analyze how the CDC and ECD reduce the tax liability of low-income families with childcare or preschool expenses, it is also interesting to analyze whether these families repeatedly claim the credit, or if they make only one or two claims and then stop, for example because the eligible dependent appears to age out of eligibility. Therefore, CDC and ECD claimants were tracked over time to assess the persistence of taxpayer claims. Analysis of persistence in claims is important for to economic analysis because it allows us to more accurately forecast utilization of these credits in our state revenue forecasts. At the time of this report, historical Iowa tax data was only available through tax year 2021, therefore persistence analysis was only run through tax year 2021 with no assumptions being made for tax years 2022 or 2023.

Persistence is defined as the number of consecutive years a household claimed either the CDC or ECD, where the period considered is tax years 2008 through 2021 (see Tables 10 and 11). In tax year 2021, 30,777 taxpayers (76.3% of all 2021 claimants) claimed either the CDC or ECD in tax year 2021 but not in 2020 or "One year", and 3,906 taxpayers (9.7%) claimed either the CDC or ECD in tax years 2020 and 2021, but not 2019 or "Two years". Fairly consistent patterns emerge for tax years 2008 through 2020; between 47.5 percent and 58.8 percent who claimed either the CDC or ECD had not claimed the credit in the prior tax year. Around one-fifth had claimed the credit for two consecutive years while another 9.0 percent to 12.6 percent had three consecutive years of claims. It was the change to the Iowa credit to include households with income up to $90,000 in 2021 that created the change in the trend.

To learn whether taxpayers with persistent CDC or ECD claims differ from taxpayers with a single claim, households with either CDC or ECD claims for all nine years between tax years 2012 and 2020 were compared with households who during the spans of tax years 2008 through 2011 (before the Iowa code rule change to link the Iowa credit to the actual received federal credit) and tax years 2012 through 2020 (when the rule change was effective making the CDC credit based on potential federal credit) only claimed either the CDC or ECD in one tax year (see Table 12). First, it is interesting to note that the filing status and number of dependents in the household were similar for one-time claimants between the two tax periods, before and after the rules were clarified in 2012, with the biggest difference appearing in the number of households in the group. The number of one-time claimants during the nine-year period during the loosened rules is just over a third of the number during the four-year period prior, suggesting many one-time claimants were likely not receiving any nonrefundable federal CDC.

While 82.0 and 86.2 percent of the long-term CDC or ECD claimants filed head of household, only 53.7 to 54.0 percent of one-year claimants filed head of household. For the long-term claimants, only 7.9 and 7.4 percent of claimants were married. In contrast, 37.8 and 38.7 percent of one-year claimants filed as married, 10.1 and 6.6 percent of long-term claimants filed single, similarly 8.3 and 7.2 percent of one-year claimants filed as single taxpayers. Only 3.2 and 1.6 percent of long-term CDC or ECD claimants had no dependent listed, and 2.8 and 1.9 percent of one-year claimants had no dependent listed. This suggests that single parents with one or two children were much more likely to make repeated CDC or ECD claims whereas one-time claimants were more likely to be married taxpayers with two or more children.

The adjusted gross income of one-time claimants was concentrated near the upper range of the income cap for credit eligibility, with only 21.1 and 13.0 percent in the less than $15,000 range, and 42.2 and 50.8 percent in the $30,000 - $44,999 range. Long-term claimants' income in TY 2012 was concentrated in the $15,000 - $29,999 range (62.0 percent), while in TY 2020 the concentration of long-term claimants was in the $30,000 - $44,999 range (58.3 percent, demonstrating the income mobility of the long-term claimants).

Utilization Rate

Across the state, 17.4 percent of taxpayers identified with qualifying dependents and income claimed a Child Dependent Care Tax Credit in tax year 2021 (see Table 13). The utilization rate is defined as the ratio of resident households claiming the credit compared to all resident households with dependents under the age of 13 and income below $90,000. Upon analyzing the utilization rate based on dual income households and single income households, it is found that in dual income households, 28.2 percent of households were claiming the CDC Tax Credit, while in single income married households, 14.2 percent of households were claiming the CDC Tax Credit.

In analyzing the utilization rate by AGI, the highest rate occurred between $85,000 and $90,000 and $80,000 and $84,999 (32.3% and 29.3% respectively). The lowest rates were found in the less than $10,000 group (5.2%) and the $10,000 to $14,999 income group (9.0%) (See Table 14). The utilization rate increases steadily as income rates increase. This shows that higher income households were utilizing this credit more than households with lower income. Reasons for the increased utilization rate amongst higher income ranges that lower income ranges can vary. Information may be more readily available to higher income households that might be able to hire an accountant to produce their taxes, while lower income households may not have the institutional knowledge that they would be eligible for such tax credits. Lower income households may also utilize an unregistered childcare provider that does not report their income for their childcare services.

Child and Dependent Care Tax Credit Potential Scenarios

The following analyses presents the fiscal impacts for two dichotomous potential scenarios that would ultimately change the Child Dependent Care Tax Credit in vastly different directions. Scenarios include:

Scenario 1: Raise the CDC to 100 Percent of the potential federal credit despite the ability to claim the full federal credit.

Scenario 2: Eliminate the tax credit from the Iowa Tax Code

These scenarios were assumed to be effective for tax years beginning on or after January 1, 2023.

The revisions under the first scenario described in these analyses would decrease Iowa individual income tax liability and thereby decrease General Fund income tax revenues and surtax revenues while the second scenario would increase Iowa individual income tax liability and thereby increase General Fund income revenues and surtax revenues.

Micro model

These analyses employ the IDR individual income tax micro model. The model forecasts both federal and Iowa tax liability at the household level for all the Iowa individual income tax filers. Non-filers' tax liability (essentially through withholding payments) were also estimated as one category.

To estimate tax liability in years after 2021, individual tax return data for tax year 2021 (the most recent complete tax year data) used by the model were adjusted for estimated growth in income components and changes in the size and age distribution of the population. The income growth forecasts were based on various income projections produced by external economic models primarily from Moody's Analytics. Economic projections presume typical business cycle trends. Population projections were based on the REMI model for the State of Iowa.

The income components were then run through two tax calculators which reflect current law and the proposal to calculate tax liability changes by tax year. Tax-year impacts were converted into State fiscal-year changes using current or proposed withholding tax formulas and historical patterns of estimates, final returns, and refunds. In the model, temporary federal law changes under TCJA expire after TY 2025. All revisions to the Iowa Tax Code during the 2022 legislative session were included in the micromodel, including the phased in of flat income tax rates.

Scenario 1

Under the first scenario (increase the credit rate for all income ranges to 100% of the potential federal rate, regardless of ability to claim the full federal credit). It is estimated that 96.6 percent of taxpayers will see no change to their taxes. Approximately 3.4 percent of taxpayers (over 56,000) will see a decrease in tax liability, including more than 11.0 percent of taxpayers with AGI over \$80,000 and less than \$90,000. The estimated average tax liability decrease per CDC claimant in TY 2023 is \$415, but the average decrease is estimated to rise with income from about \$210 at the lowest income level up to \$616 for individuals with an AGI over \$80,000 and less than \$90,000 (see Table 15).

It is assumed that nearly all the higher tax credit claims would be realized when taxpayers file final returns. State General Fund revenues were estimated to drop only \$0.08 million in FY 2023. This negative impact increases to \$23.9 million in FY 2024, \$24.4 million in FY 2025, \$24.2 million in FY 2026, and then remains around \$25.0 million from FY 2027 through FY 2028 (see Table 16).[5]

Scenario 2

Under the second scenario (elimination of the CDC from the Iowa Tax Code). It is estimated that 96.6 percent of taxpayers will see no change to their taxes. Approximately 3.4 percent of taxpayers (over 56,000) will see an increase in tax liability, including more than 10.0 percent of taxpayers with AGI over \$80,000 and less than \$90,000. The estimated average tax liability increase per CDC claimant in TY 2023 is about \$360, but the average increase is estimated to increase with income from about \$264 at the highest income level up to \$629 for individuals with an AGI below \$10,000 (see Table 17).

It is assumed that nearly all the removed tax credit claims would be realized when taxpayers file final returns. State General Fund revenues were estimated to increase only

[5] Translation to fiscal year from tax year is based on observed payment streams of taxpayers affected by the proposed scenario change.

$0.07 million in FY 2023. This impact increases to $20.7 million in FY 2024, $21.4 million in FY 2025, $21.4 million in FY 2026, and then remains around $23.3 million from FY 2027 through FY 2028 (see Table 18).[6]

VIII. Conclusion

Child care is a significant cost for many working parents. The Iowa CDC Tax Credit is aimed to help parents with their child care costs. Iowa also provides the ECD Tax Credit with the aim to encourage preschool attendance by helping parents with early childhood expenses.

This evaluation of the CDC and ECD provided a picture of who claims the credits and how much had been claimed over the history of each credit. While the CDC Tax Credit has undergone multiple transformations since its inception in tax year 1977, the ECD Tax Credit had not changed since it was enacted just over a decade ago until 2021. The latest changes to the CDC and ECD credits involved legislative changes in 2021 expanding the availability of the credits to income levels up to $90,000.

In tax year 2021, $25.7 million in CDC Tax Credits were claimed by over 36,000 households while $684,000 in ECD Tax Credits were claimed by over 3,700 households. Just over half of CDC claimants file head of household and just over two-thirds reported just one dependent. Over one-third of households claiming the CDC had a net income between $70,000 and $90,000.

[6] Translation to fiscal year from tax year is based on observed payment streams of taxpayers affected by the proposed scenario change.

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Tables and Figures

Table 1. State Programs

State	Description
Arkansas	20% of the federal child and dependent care tax credit. Refundable.
California	For families with adjusted gross income less than $100,000, the dependent care tax credit is: 50% of the federal child and dependent care tax credit (CDCTC) for taxpayers earning up to $40,000; 43% of the federal CDCTC for taxpayers earning between $40,001 and $70,000; and 34% of the federal CDCTC for taxpayers earning between $70,000 and $100,000.
Colorado	For families with adjusted gross income less than $60,000; 50% of the federal child and dependent care tax credit (CDCTC) for taxpayers with income up to $25,000; 30% of the federal CDCTC for taxpayers earning between $25,000 and $35,000; and 10% of the federal CDCTC for taxpayers earning between $35,000 and $60,000.
Delaware	50% of the federal child and dependent care tax credit (CDCTC), not refundable
Georgia	30% of federal child and dependent care tax credit (CDCTC), not refundable
Hawaii	The tax credit is calculated as a percentage of qualifying expenses, not as a percentage of the federal credit. Refundable.
Idaho	Idaho does not have a dependent care tax credit. However, Idaho has a dependent care tax deduction. Idaho increased the dedution to $12,000 per year through HB 288 enacted in April of 2023 (retroactive to 1/1/23).
Iowa	Taxpayers with a net income of less than $90,000 (increased from $45,000) are eligible to take one of these two credits: the Child and Dependent Care Credit OR the Early Childhood Development Tax Credit. Refundable. Families are not eligible for the Child and Dependent Care Credit if they were unable to take it on their federal tax return. Modified in 2021 to increase $45,000 cap to $90,000.
Kansas	In tax year 2020, the Kansas dependent care credit is equal to 25% of the federal child and dependent care tax credit (CDCTC). Not refundable. This credit was repealed in 2013 and re-instated in 2017 (for taxable year 2018 and beyond).
Kentucky	20% of federal child and dependent care tax credit (CDCTC), not refundable.
Louisiana	Child Care Tax Credit Based on federal child and dependent care tax credit (CDCTC). In addition to the child care tax credit that is available to families based on the quality rating of programs they select, there is also a refundable credit linked to the federal CDCTC for families with income below $25,000; nonrefundable credit for other families with a sliding scale based on income.
Maine	The Maine child care tax credit is equal to 25% of the federal child and dependent care tax credit (CDCTC). The credit doubles if the expenses are related to a quality child care provider with a Step 4 Quality Certificate. The credit is also refundable up to $500.
Maryland	Effective July 1, 2019, state legislation was enacted to increase the maximum income limit on eligibility for the State income tax for child and dependent care expenses, alter the phase-out of the tax credit, make the credit refundable, subject the credit to increased income limits (below $75,000), and increase the tax credit each taxable year for income eligibility and refundability thresholds by a cost-of-living adjustment. The credit applies to taxable years beginning after December 31, 2018.
Massachusetts	Massachusetts does not have a dependent care tax credit. However, Massachusetts offers taxpayers two child and dependent care related tax deductions. One is for child care expenses and the other is for dependent care more generally (including for the elderly or a disabled family member). Families cannot take both deductions.

Table 1. State Programs Continued

State	Description
Minnesota	The Minnesota dependent care tax credit equals the federal child and dependent care tax credit (CDCTC) for which the family is eligible, subject to an income-based phaseout. While all filers with tax liability and qualifying expenses may claim the federal credit, the state credit is fully phased out for families with higher incomes. The Minnesota credit is refundable.
Montana	Montana does not have a dependent care tax credit. Instead, Montana has a dependent care expense deduction. Maximum expenses: $2,400 in the case of one qualifying individual, $3,600 in the case of two qualifying individuals, and $4,800 in the case of three or more qualifying individuals. If the combined adjusted gross income of a family exceeds $18,000 for the tax year during which the expenses are incurred, the amount of the dependent care expenses are reduced by one-half of the excess of the combined adjusted gross income over $18,000.
Nebraska	Refundable for families with federal adjusted gross income of $29,000 or less, whether or not the federal child and dependent care tax credit (CDCTC) was limited by federal tax liability. The percentage of the federal CDCTC shall be 100% for families with income less than $22,000, and the percentage is reduced by 10% for each $1,000, or fraction above.
New Jersey	For families with New Jersey taxable income of $150,000 or less, a refundable dependent care tax credit as a percentage of the federal child and dependent care tax credit (CDCTC) is available. The credit is 50% of the federal CDCTC for families with income under $20,000 declining to 10% for families with income of $150,000 or less. This credit was increased in 2021 from a maximum of $60,000 and also made refundable.
New Mexico	The New Mexico dependent care tax credit is limited to taxpayers with income under $31,160. The credit is refundable.
New York	The NYS dependent care tax credit is a minimum of 20% of the federal child and dependent care tax credit (CDCTC) or it may exceed the federal credit and be refundable. It is calculated based on the amount of NYS adjusted gross income, the number of qualifying persons, and the amount of qualified expenses paid.
Ohio	The Ohio dependent care tax credit is available for families with income under $40,000. The credit is 25% of the federal child and dependent care tax credit (CDCTC) except that the amount of the credit for a taxpayer with modified adjusted gross income of less than $20,000 is equal to the federal credit.
Oklahoma	Families have a choice between: 20% of the federal child and dependent care tax credit (CDCTC) or 5% of the federal child tax credit. Federal adjusted gross income can not exceed $100,000. Not refundable.
Oregon	Oregon has a Working Family Household and Dependent Care Credit (WFHDC) that supports low- to moderate-income families to pay for the care of dependents while they're working or looking for work.
Pennsylvania	Dependent and Child Care Enhancement Program. Beginning for tax year 2022, Pennsylvania residents who claim the federal Child and Dependent Care Tax Credit (CDCTC) may claim a tax credit against their Pennsylvania tax liability. The Pennsylvania Dependent and Child Care Enhancement Tax Credit was established as part of the 2022-2023 state budget. The provision creates a refundable personal income tax credit calculated at 30% of the federal CDCTC for those who qualified for the federal program.
Rhode Island	25% of the federal child and dependent care tax credit (CDCTC), not refundable
South Carolina	7% of the federal child and dependent care tax credit (CDCTC). The maximum credit allowed is $210 for one child or $420 for two or more children.

Table 1. State Programs Continued

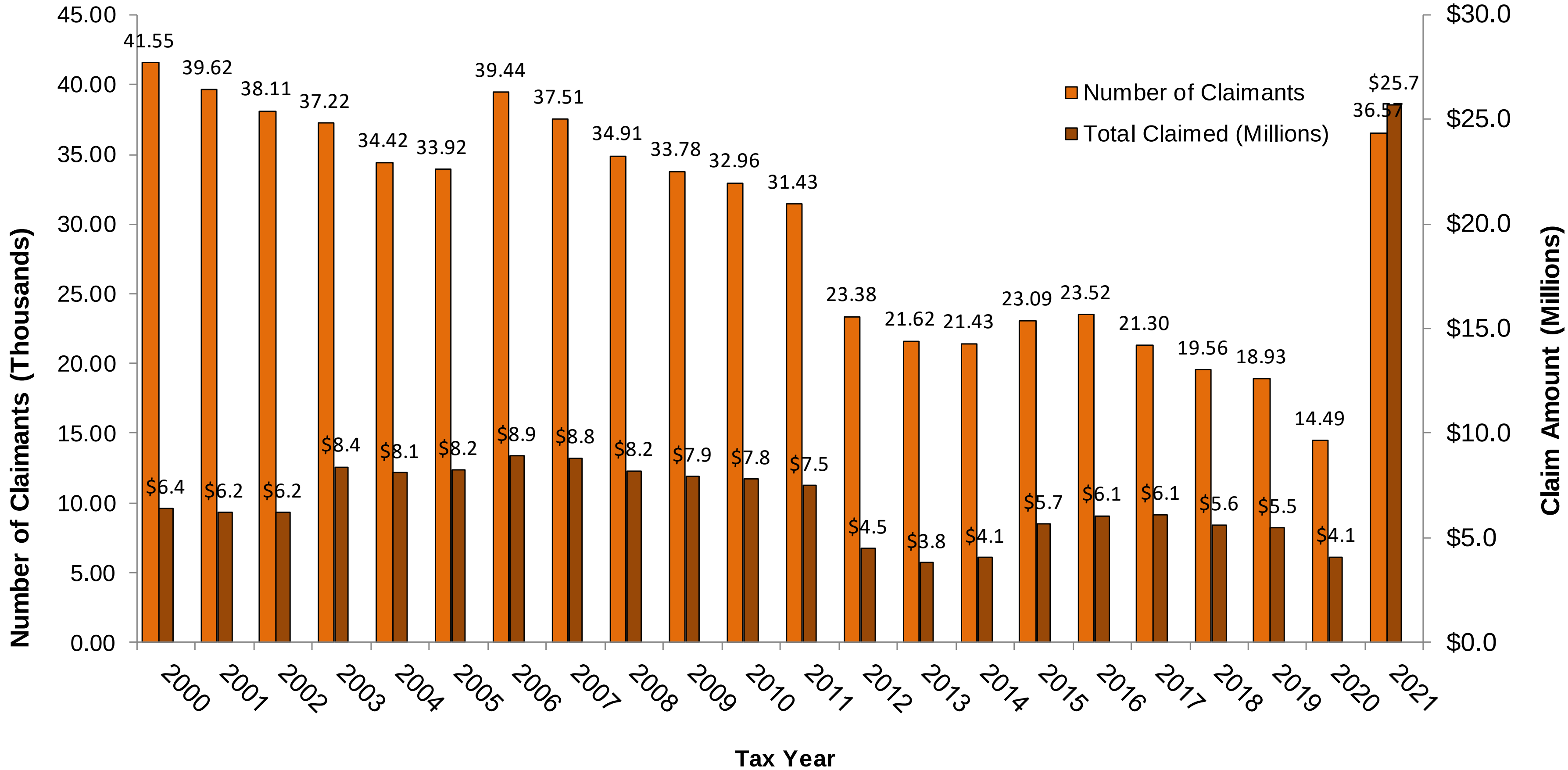
State	Description
Vermont	Families with federal adjusted gross income less than $30,000 (or $40,000 for married, filing jointly) are eligible for a refundable credit. The credit is equal to 50% of the federal child and dependent care tax credit (CDCTC) allowed to the taxpayer for the taxable year for child or dependent care services provided in Vermont in a registered home or licensed facility certified by the Agency of Human Services as meeting national accreditation or national credential standards endorsed by the Agency. A credit under this section shall be in lieu of any child and dependent care credit available under subsection 5822(d) of the Vermont code.
Virginia	Virginia does not have a dependent care tax credit. Instead, a deduction is allowed for dependent care expenses based on expenses claimed under the federal child and dependent care tax credit (CDCTC). Families may only claim this deduction on their Virginia tax return if they were eligible to claim a credit for child and dependent care expenses on their federal return.
Wisconsin	Additional Child and Dependent Care Tax Credit. Beginning in 2022, Wisconsin residents who claim the federal Child and Dependent Care Tax Credit (CDCTC) may claim a tax credit against their Wisconsin tax liability. The provision creates a refundable personal income tax credit calculated at 50% of the federal CDCTC for those who qualified for the federal program. The credit is not refundable.

Table 2. Iowa Child and Dependent Care Tax Credit Claims, Tax Years 1977-2021

Tax Year	Number of Claimants	Change in Number of Claimants	Total Claimed (Millions)	Change in Total Claimed	Average Claim Amount	Tax Provision Major Change
1977	NA	NA	$1.6	NA	NA	Iowa 5% of the federal CDC
1978	NA	NA	$2.0	25.5%	NA	
1979	NA	NA	$2.4	19.7%	NA	
1980	NA	NA	$2.7	10.9%	NA	
1981	NA	NA	$3.2	18.5%	NA	
1982	NA	NA	$3.5	8.2%	NA	
1983	NA	NA	$8.1	134.4%	NA	Iowa raised to 10% of the federal CDC
1984	147,700	NA	$9.7	19.2%	$66	
1985	155,000	4.9%	$10.7	9.8%	$69	
1986	167,000	7.7%	$13.3	25.0%	$80	Iowa raised to 45% of the federal CDC
1987	171,700	2.8%	$14.2	6.6%	$83	
1988	176,800	3.0%	$15.5	9.2%	$88	Federal administrative rule change
1989	152,800	-13.6%	$13.0	-16.1%	$85	Federal qualifying children age lowered to 13
1990	142,900	-6.5%	$10.5	-19.2%	$73	Iowa became 75 to 10 percent percentage of federal CDC
1991	146,300	2.4%	$10.7	1.9%	$73	
1992	145,300	-0.7%	$10.4	-2.8%	$72	
1993	67,800	-53.3%	$7.9	-24.0%	$117	Iowa income limit at $40,000
1994	65,100	-4.0%	$8.0	1.3%	$123	
1995	61,800	-5.1%	$8.0	0.0%	$129	
1996	59,752	-3.3%	$8.1	1.3%	$136	
1997	54,127	-9.4%	$7.6	-6.2%	$140	
1998	47,561	-12.1%	$7.0	-7.9%	$147	
1999	45,003	-5.4%	$6.7	-4.3%	$149	
2000	41,553	-7.7%	$6.4	-4.5%	$154	
2001	39,618	-4.7%	$6.2	-3.1%	$156	
2002	38,111	-3.8%	$6.2	0.0%	$163	
2003	37,219	-2.3%	$8.4	35.5%	$226	Federal EGTRRA expansions
2004	34,422	-7.5%	$8.1	-3.6%	$235	
2005	33,917	-1.5%	$8.2	1.7%	$243	
2006	39,440	16.3%	$8.9	8.2%	$226	Iowa income limit raised to $45,000
2007	37,510	-4.9%	$8.8	-1.3%	$235	
2008	34,907	-6.9%	$8.2	-6.7%	$235	
2009	33,776	-3.2%	$7.9	-3.3%	$235	
2010	32,964	-2.4%	$7.8	-1.7%	$237	Federal 2003 expansions extended through 2012
2011	31,429	-4.7%	$7.5	-3.9%	$238	
2012	23,376	-25.6%	$4.5	-40.1%	$192	Iowa credit was limited by actual received amount of federal credit
2013	21,617	-7.5%	$3.8	-15.2%	$176	
2014	21,432	-0.9%	$4.1	6.5%	$189	
2015	23,088	7.7%	$5.7	40.1%	$246	Iowa Code changed to reflect amount based on eligible amount of federal credit not actual received amount
2016	23,519	1.9%	$6.1	6.8%	$258	
2017	21,300	-9.4%	$6.1	0.7%	$287	
2018	19,556	-8.2%	$5.6	-8.2%	$287	
2019	18,933	-3.2%	$5.5	-2.4%	$289	
2020	14,488	-23.5%	$4.1	-25.3%	$282	
2021	36,567	152.4%	$25.7	528.5%	$703	Iowa income limit raised to $90,000 Federal credit increased the amount of qualifying expenses from $3,000 to $8,000 for one qualifying person and from $6,000 to $16,000 for two or more qualifying individuals. The percentage of qualifying expenses eligible for the credit increased from 35% to 50%

Source: Iowa Department of Revenue Individual Income Tax Annual Statistical Reports, tax years 1977-2021. Iowa individual income tax return data, tax years 1996-2021. Shaded areas indicate there were tax provision changes in that year. Amounts claimed were not adjusted for inflation. Number of claimants is on an individual taxpayer basis. Married couples filing separately on the same return were counted as two claimants.

Figure 1. Child and Dependent Care Tax Credit Claims, Tax Years 2000 - 2021



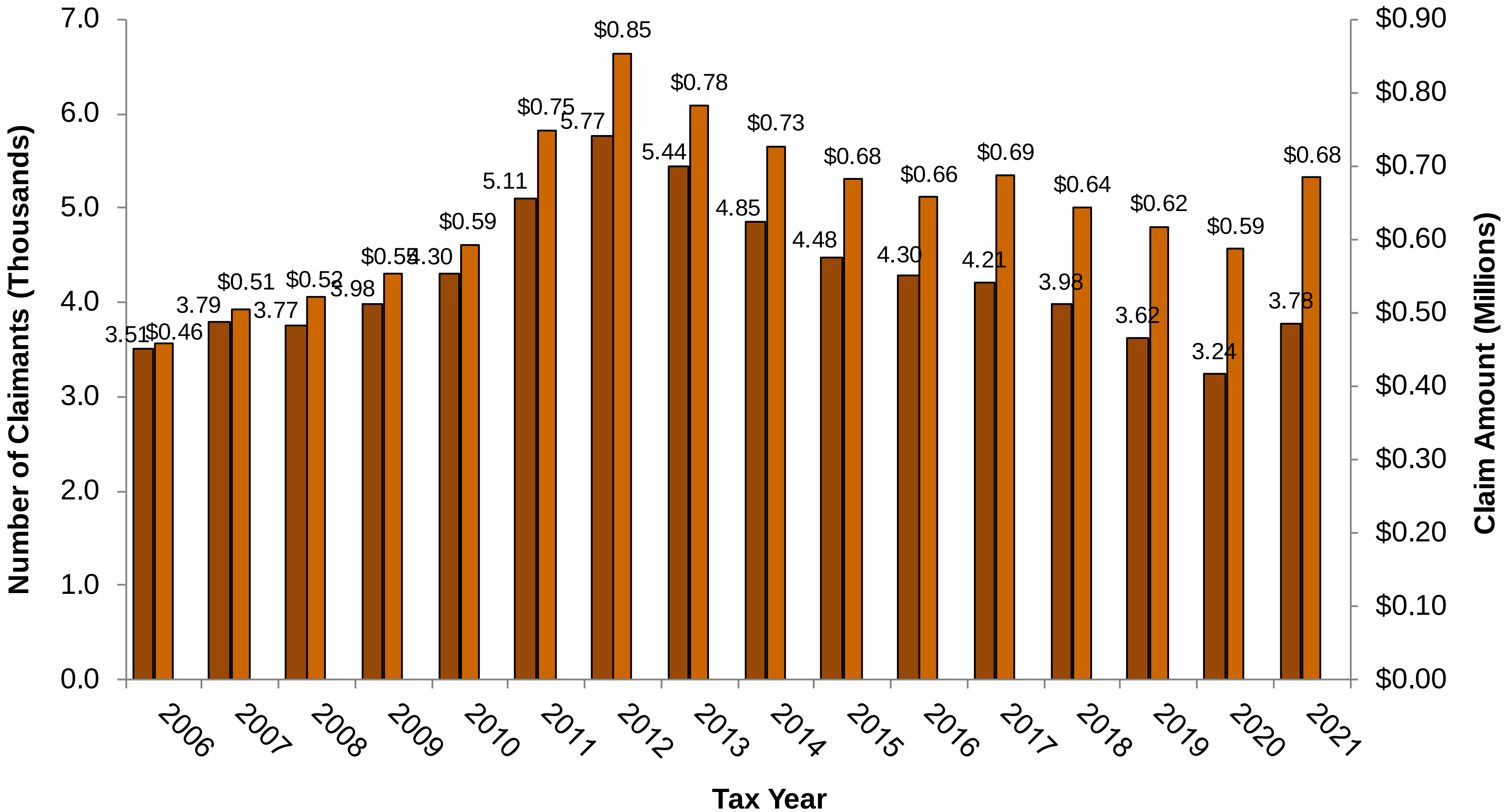
Source: Iowa individual income tax return data, tax years 2000-2021.

Table 3. Iowa Early Childhood Development Tax Credit Claims, Tax Years 2006-2021

Tax Year	Number of Claimants	Change Rate of Number of Claimants	Total Claimed (Millions)	Change Rate of Total Claimed	Average Claim Amount
2006	3,507	-	$0.46	-	$131
2007	3,790	8.1%	$0.51	10.5%	$134
2008	3,765	-0.7%	$0.52	3.0%	$139
2009	3,978	5.7%	$0.55	6.1%	$139
2010	4,303	8.2%	$0.59	6.9%	$138
2011	5,112	18.8%	$0.75	26.7%	$147
2012	5,768	12.8%	$0.85	14.0%	$148
2013	5,443	-5.6%	$0.78	-8.4%	$144
2014	4,849	-10.9%	$0.73	-7.0%	$150
2015	4,482	-7.6%	$0.68	-6.3%	$152
2016	4,295	-4.2%	$0.66	-3.6%	$153
2017	4,212	-1.9%	$0.69	4.6%	$163
2018	3,976	-5.6%	$0.64	-6.4%	$162
2019	3,624	-8.9%	$0.62	-4.0%	$171
2020	3,240	-10.6%	$0.59	-5.0%	$181
2021	3,778	16.6%	$0.68	16.5%	$181

Source: Individual income tax return data, tax years 2006-2021.
Number of claimants is on an individual taxpayer basis. Amounts claimed were not adjusted for inflation. Married couples filing separately on the same return were counted as two claimants.

Figure 2. Early Childhood Development Tax Credit Claims, Tax Years 2006-2021



Source: Iowa individual income tax return data, tax years 2006-2021.

Table 4. Income Distribution of CDC and ECD Tax Credit Claimants, Tax Year 2021

	Child and Dependent Care Tax Credit					Early Childhood Development Tax Credit				
AGI Range	Number of Households	Distribution of Households	Amount of Tax Credit	Distribution of Credits	Average Credits	Number of Households	Distribution of Households	Amount of Tax Credit	Distribution of Credits	Average Credits
Less than $10,000	1,178	3.2%	$1,168,500	4.5%	$992	519	13.7%	$99,485	14.5%	$192
$10,000 - $14,999	1,106	3.0%	$1,029,498	4.0%	$931	297	7.9%	$60,395	8.8%	$203
$15,000 - $19,999	1,524	4.2%	$1,416,705	5.5%	$930	301	8.0%	$56,615	8.3%	$188
$20,000 - $24,999	1,963	5.4%	$1,591,061	6.2%	$811	300	7.9%	$54,418	8.0%	$181
$25,000 - $29,999	2,445	6.7%	$1,937,960	7.5%	$793	339	9.0%	$64,653	9.4%	$191
$30,000 - $34,999	2,732	7.5%	$2,338,182	9.1%	$856	319	8.4%	$55,847	8.2%	$175
$35,000 - $39,999	2,795	7.6%	$2,075,478	8.1%	$743	329	8.7%	$59,276	8.7%	$180
$40,000 - $44,999	2,429	6.6%	$1,408,082	5.5%	$580	354	9.4%	$63,353	9.3%	$179
$45,000 - $49,999	2,232	6.1%	$1,299,564	5.1%	$582	157	4.2%	$27,275	4.0%	$174
$50,000 - $54,999	2,028	5.5%	$1,150,385	4.5%	$567	145	3.8%	$22,598	3.3%	$156
$55,000 - $59,999	1,924	5.3%	$1,121,130	4.4%	$583	141	3.7%	$22,355	3.3%	$159
$60,000 - $64,999	1,971	5.4%	$1,152,686	4.5%	$585	106	2.8%	$17,654	2.6%	$167
$65,000 - $69,999	2,096	5.7%	$1,263,188	4.9%	$603	100	2.6%	$17,051	2.5%	$171
$70,000 - $74,999	2,349	6.4%	$1,459,909	5.7%	$622	94	2.5%	$14,295	2.1%	$152
$75,000 - $79,999	2,442	6.7%	$1,613,894	6.3%	$661	94	2.5%	$17,165	2.5%	$183
$80,000 - $84,999	2,600	7.1%	$1,773,011	6.9%	$682	83	2.2%	$14,734	2.2%	$178
$85,000 - $90,000	2,753	7.5%	$1,896,332	7.4%	$689	100	2.6%	$17,207	2.5%	$172
Total	36,567	100%	$25,695,565	100%	$702.70	3,778	100%	$684,376	100%	$181.15

Source: Iowa individual income tax returns data, Tax Year 2021

Table 5. Filing Status Distribution of CDC and ECD Tax Credit Claimants, Tax Year 2021

	Child and Dependent Care Tax Credit					Early Childhood Development Tax Credit				
Filing Status	Number of Households	Distribution of Households	Amount of Tax Credit	Distribution of Credits	Average Credits	Number of Households	Distribution of Households	Amount of Tax Credit	Distribution of Credits	Average Credits
Single	1,888	5.2%	$1,498,858	5.8%	$794	136	3.6%	$24,943	3.6%	$183
Married Joint	2,230	6.1%	$1,627,418	6.3%	$730	1,041	27.6%	$180,178	26.3%	$173
Married Separate	13,060	35.7%	$8,539,890	33.2%	$654	575	15.2%	$100,384	14.7%	$175
Head of Household	19,333	52.9%	$13,991,732	54.5%	$724	2,021	53.5%	$377,568	55.2%	$187
Qualifying Widow(er)	56	0.2%	$37,667	0.1%	$673	5	0.1%	$1,303	0.2%	$261
Total	36,567	100%	$25,695,565	100%	$703	3,778	100%	$684,376	100%	$181

Source: Iowa individual income tax returns data, Tax Year 2021

Table 6. Eligible Dependent Distribution of CDC and ECD Tax Credit Claimants, Tax Year 2021

	Child and Dependent Care Tax Credit					Early Childhood Development Tax Credit				
Number of Eligible Children	Number of Households	Distribution of Households	Amount of Tax Credit	Distribution of Credits	Average Credits	Number of Households	Distribution of Households	Amount of Tax Credit	Distribution of Credits	Average Credits
1	24,548	67.1%	$14,574,238	56.7%	$594	3,408	90.2%	$585,653	85.6%	$172
2	9,480	25.9%	$8,731,173	34.0%	$921	353	9.3%	$93,680	13.7%	$265
3	2,191	6.0%	$2,060,814	8.0%	$941	16	0.4%	$4,793	0.7%	$300
4	303	0.8%	$287,467	1.1%	$949					
5	38	0.1%	$32,514	0.1%	$856					
Total	36,560	100%	$25,686,206	100%	$703	3,777	100%	$684,126	100%	$181

Source: Iowa individual income tax returns data, Tax Year 2021

Table 7. Primary Age Distribution of CDC and ECD Tax Credit Claimants, Tax Year 2021

	Child and Dependent Care Tax Credit					Early Childhood Development Tax Credit				
Primary Age	Number of Households	Distribution of Households	Amount of Tax Credit	Distribution of Credits	Average Credits	Number of Households	Distribution of Households	Amount of Tax Credit	Distribution of Credits	Average Credits
Less than 20	73	0.2%	$48,683	0.2%	$667	2	0.1%	$338	0.0%	$169
20 - 25	3,582	9.8%	$2,737,550	10.7%	$764	404	10.7%	$80,088	11.7%	$198
26 - 30	9,332	25.5%	$7,031,727	27.4%	$754	1,029	27.2%	$188,400	27.5%	$183
31 - 35	10,341	28.3%	$7,713,440	30.0%	$746	1,089	28.8%	$195,647	28.6%	$180
36 - 40	7,993	21.9%	$5,144,735	20.0%	$644	767	20.3%	$138,377	20.2%	$180
41 - 45	3,316	9.1%	$2,011,690	7.8%	$607	307	8.1%	$53,450	7.8%	$174
46 - 50	1,171	3.2%	$621,739	2.4%	$531	105	2.8%	$16,307	2.4%	$155
51 - 55	444	1.2%	$223,513	0.9%	$503	40	1.1%	$6,998	1.0%	$175
56 - 60	187	0.5%	$102,261	0.4%	$547	16	0.4%	$1,706	0.2%	$107
61 - 65	87	0.2%	$42,658	0.2%	$490	10	0.3%	$1,496	0.2%	$150
Over 65	41	0.1%	$17,569	0.1%	$429	9	0.2%	$1,569	0.2%	$174
Total	36,567	100%	$25,695,565	100%	$703	3,778	100%	$684,376	100%	$181

Source: Iowa individual income tax returns data, Tax Year 2021

Table 8. Analysis of versus Dual Income Households for the CDC

	Total CDC Claimants	Married CDC Claimants		Married CDC Claimants	
		Dual Income	Single Income	Dual Income	Single Income
Claims	36,567	12,859	2,324	35.2%	6.4%
Claim Amounts	$25,695,565	$8,316,568	$1,748,117	32.4%	6.8%
	Married CDC Claimants	Married CDC Claimants		Married CDC Claimants	
		Dual Income	Single Income	Dual Income	Single Income
Claims	15,290	12,859	2,324	84.1%	15.2%
Claim Amounts	$10,167,308	$8,316,568	$1,748,117	81.8%	17.2%

Source: Iowa individual income tax returns data, Tax Year 2021

Table 9. Analysis of Childcare Expenses

Number of Households	Childcare Costs	Household Average Childcare Costs	Average Childcare Cost per Child	Amount of Total Credits	Average Percent of Childcare Costs Offset by Credits
148,593	$678,234,473	$4,564	$3,083	$33,733,401	18.7%

Source: Iowa individual income tax returns data, Tax Year 2021

Table 10. Count of Households by Consecutive Years of Either CDC or ECD Claims

	Number of Consecutive Claims by Tax Year													
Consecutive Years	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
One Year	16,024	15,586	15,711	15,810	12,353	12,426	12,840	14,662	13,700	13,433	11,441	11,362	8,428	30,777
Two Years	6,856	6,808	6,608	6,571	5,404	4,533	4,698	4,798	6,073	5,572	5,418	4,449	3,823	3,906
Three Years	4,091	3,681	3,635	3,422	2,895	2,518	2,182	2,236	2,465	3,213	2,918	2,853	2,001	2,236
Four Years	2,144	2,343	2,153	2,105	1,620	1,598	1,334	1,127	1,248	1,383	1,793	1,615	1,449	1,228
Five Years	3,257	1,352	1,440	1,292	1,073	887	888	756	656	723	789	1,097	848	937
Six Years		2,033	860	888	703	624	503	495	456	395	441	481	581	532
Seven Years			1,284	530	474	404	344	295	286	291	238	279	249	357
Eight Years				808	283	294	255	207	179	184	192	140	148	150
Nine Years					449	167	174	141	144	106	113	110	65	95
Ten Years						262	244	232	214	212	189	171	136	127
Total	32,372	31,803	31,691	31,426	25,254	23,713	23,462	24,949	25,421	25,512	23,532	22,557	17,728	40,345

Source: Iowa individual income tax returns data, Tax Year 2021

Table 11. Share of Households with Persistent CDC or ECD Claims by Consecutive Years

	Distribution of Claims by Consecutive Tax Years of Claim													
Consecutive Years	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
One Year	49.5%	49.0%	49.6%	50.3%	48.9%	52.4%	54.7%	58.8%	53.9%	52.7%	48.6%	50.4%	47.5%	76.3%
Two Years	21.2%	21.4%	20.9%	20.9%	21.4%	19.1%	20.0%	19.2%	23.9%	21.8%	23.0%	19.7%	21.6%	9.7%
Three Years	12.6%	11.6%	11.5%	10.9%	11.5%	10.6%	9.3%	9.0%	9.7%	12.6%	12.4%	12.6%	11.3%	5.5%
Four Years	6.6%	7.4%	6.8%	6.7%	6.4%	6.7%	5.7%	4.5%	4.9%	5.4%	7.6%	7.2%	8.2%	3.0%
Five Years	10.1%	4.3%	4.5%	4.1%	4.2%	3.7%	3.8%	3.0%	2.6%	2.8%	3.4%	4.9%	4.8%	2.3%
Six Years		6.4%	2.7%	2.8%	2.8%	2.6%	2.1%	2.0%	1.8%	1.5%	1.9%	2.1%	3.3%	1.3%
Seven Years			4.1%	1.7%	1.9%	1.7%	1.5%	1.2%	1.1%	1.1%	1.0%	1.2%	1.4%	0.9%
Eight Years				2.6%	1.1%	1.2%	1.1%	0.8%	0.7%	0.7%	0.8%	0.6%	0.8%	0.4%
Nine Years					1.8%	0.7%	0.7%	0.6%	0.6%	0.4%	0.5%	0.5%	0.4%	0.2%
Ten Years						1.1%	1.0%	0.9%	0.8%	0.8%	0.8%	0.8%	0.8%	0.3%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: Iowa individual income tax returns data, Tax Year 2021

Table 12. Comparison between One-Year and Long-Term CDC or ECD Claimants by Filing Status and Number of Dependents

	Only One CDC or ECD Claim Between 2008-2011 or Between 2012-2020				Long-Term Claimants Claim CDC or ECD for 5 Years Between 2012-2020			
	Between 2008-2011		Between 2012-2020		Tax Year 2012		Tax Year 2020	
Iowa Filing Status	Number of Households	Percent of Households	Number of Households	Percent of Households	Number of Households	Percent of Households	Number of Households	Percent of Households
Married	15,895	37.8%	6,175	38.7%	153	7.9%	152	7.4%
Single	3,495	8.3%	1,154	7.2%	195	10.1%	130	6.4%
Head of Household	22,579	53.7%	8,622	54.0%	1,583	82.0%	1,764	86.2%
Qualifying Widow(er)	77	0.2%	13	0.1%	*	*	*	*
Total	42,046	100.0%	15,964	100.0%	1,931	100.0%	2,046	100.0%
	Between 2008-2011		Between 2012-2020		Tax Year 2012		Tax Year 2020	
Number of Dependents	Number of Households	Percent of Households	Number of Households	Percent of Households	Number of Households	Percent of Households	Number of Households	Percent of Households
0	1,160	2.8%	306	1.9%	61	3.2%	32	1.6%
1	20,119	47.8%	8,190	51.3%	1,197	62.0%	1,205	58.9%
2	13,245	31.5%	4,701	29.4%	507	26.3%	658	32.2%
3+	7,522	17.9%	2,767	17.3%	170	8.8%	153	7.5%
Total	42,046	100.0%	15,964	100.0%	1,935	100.0%	2,048	100.0%
	Between 2008-2011		Between 2012-2020		Tax Year 2012		Tax Year 2020	
AGI Range	Number of Households	Percent of Households	Number of Households	Percent of Households	Number of Households	Percent of Households	Number of Households	Percent of Households
Less than $15,000	8,888	21.1%	2,069	13.0%	88	4.5%	95	4.6%
$15,000-$29,999	15,407	36.6%	5,788	36.3%	1,200	62.0%	760	37.1%
$30,000-$44,999	17,751	42.2%	8,107	50.8%	647	33.4%	1,193	58.3%
Total	42,046	100.0%	15,964	100.0%	1,935	100.0%	2,048	100.0%

Source: Iowa individual income tax returns data, Tax Year 2021
* Indicates data too low to report

Table 13. Utilization based on dual vs single income for Tax Year 2021

	Households		Dual Income		Single Income	
	Number of Households	Share of Households	Number of Households	Share of Households	Number of Households	Share of Households
Claiming	28,729	17.4%	10,784	28.2%	17,945	14.2%
Not Claiming	136,073	82.6%	27,402	71.8%	108,671	85.8%
Total	164,802		38,186		126,616	

Source: Iowa individual income tax returns data, Tax Year 2021

Table 14. Utilization based on AGI, Tax Year 2021

AGI Range	Eligible Households	Households Claiming Credit	Utilization Rate
Less than 10,000	13,551	705	5.2%
10,000 - $14,999	8,723	781	9.0%
$15,000 - $19,999	10,414	1,130	10.9%
$20,000 - $24,999	10,739	1,486	13.8%
$25,000 - $29,999	11,733	1,879	16.0%
$30,000 - $34,999	12,259	2,211	18.0%
$35,000 - $39,999	12,274	2,231	18.2%
$40,000 - $44,999	11,253	1,920	17.1%
$45,000 - $49,999	10,444	1,763	16.9%
$50,000 - $54,999	9,461	1,560	16.5%
$55,000 - $59,999	8,632	1,510	17.5%
$60,000 - $64,999	8,202	1,515	18.5%
$65,000 - $69,999	7,757	1,680	21.7%
$70,000 - $74,999	7,595	1,898	25.0%
$75,000 - $79,999	7,254	2,018	27.8%
$80,000 - $84,999	7,235	2,123	29.3%
$85,000 - $90,000	7,141	2,305	32.3%

Source: Iowa individual income tax returns data, Tax Year 2021

Table 15. Estimated Distribution of Taxpayers Experiencing Decreases and Increases in Total Tax Liability Under a Scenario to Increase the Iowa CDC Rate to 100% of the Federal Rate

Estimates for Tax Year 2023

Iowa Taxable Income Current Law	Share of Returns by Estimated Change in State Income Tax and School Surtax Liability[a]			Estimated Change in State Income Tax and School Surtax Liability			
				Taxpayers with Tax Liability Decrease		Taxpayers with Tax Liability Increase	
Resident Filers	**Taxpayers with No Change**	**Taxpayers with Decrease**	**Taxpayers with Increase**	**Total**	**Average**	**Total**	**Average**
$10,000 or less	98.2%	1.8%	0.0%	-$2,217,534	-$210	$0	$0
$10,001 to 20,000	95.0%	5.0%	0.0%	-1,630,165	-249	0	0
$20,001 to 30,000	94.7%	5.3%	0.0%	-2,253,391	-335	0	0
$30,001 to 40,000	95.0%	5.0%	0.0%	-2,255,346	-396	0	0
$40,001 to 50,000	94.2%	5.8%	0.0%	-2,881,474	-527	0	0
$50,001 to 60,000	92.8%	7.2%	0.0%	-3,128,170	-565	0	0
$60,001 to 70,000	90.9%	9.1%	0.0%	-3,379,838	-597	0	0
$70,001 to 80,000	89.6%	10.4%	0.0%	-3,138,863	-591	0	0
$80,001 to 90,000	89.0%	11.0%	0.0%	-2,909,156	-616	0	0
$90,001 to 100,000	100.0%	0.0%	0.0%	0	0	0	0
$100,001 to 125,000	100.0%	0.0%	0.0%	0	0	0	0
$125,001 to 150,000	100.0%	0.0%	0.0%	0	0	0	0
$150,001 to 175,000	100.0%	0.0%	0.0%	0	0	0	0
$175,001 to 200,000	100.0%	0.0%	0.0%	0	0	0	0
$200,001 to 250,000	100.0%	0.0%	0.0%	0	0	0	0
$250,001 to 500,000	100.0%	0.0%	0.0%	0	0	0	0
$500,001 to 1,000,000	100.0%	0.0%	0.0%	0	0	0	0
$1,000,001 or more	100.0%	0.0%	0.0%	0	0	0	0
Resident Filers Total	**96.3%**	**3.7%**	**0.0%**	**-$23,793,937**	**-$423**	**$0**	**$0**
Nonresident Filers							
$50,000 or less	98.6%	1.4%	0.0%	-$267,677	-$183	$0	$0
$50,001 to 100,000	97.7%	2.3%	0.0%	-209,182	-263	0	0
$100,001 to 500,000	100.0%	0.0%	0.0%	0	0	0	0
$500,001 or more	100.0%	0.0%	0.0%	0	0	0	0
Composite Filers	100.0%	0.0%	0.0%	0	0	0	0
Nonresident Filers Total	**98.9%**	**1.1%**	**0.0%**	**-$476,859**	**-$211**	**$0**	**$0**
All Tax Filers Total	**96.6%**	**3.4%**	**0.0%**	**-$24,270,796**	**-$415**	**$0**	**$0**

Analysis Using Individual Return Data from Tax Year 2021

Tax Research Bureau, Iowa Department of Revenue

a. Share of Returns by Estimated Change in Tax Liability may not equal 100% due to rounding.

Table 16. Translation of Tax Year Estimated Impact to Fiscal Year Estimated Impacts Under a Scenario to Increase the Iowa CDC Rate to 100% of the Federal Rate

Millions of Dollars

Tax Year Estimates	TY 2023	TY 2024	TY 2025	TY 2026	TY 2027	TY 2028
Filers:						
Withholding	$0.000	$0.000	$0.000	$0.000	$0.000	$0.000
Estimate Payments	-0.292	-0.298	-0.297	-0.287	-0.287	-0.288
Final Payments	-8.752	-8.618	-8.587	-0.640	-0.641	-0.642
Refunds	-15.227	-15.477	-15.307	-24.477	-24.310	-24.215
Filers Totals	**-$24.271**	**-$24.393**	**-$24.192**	**-$25.404**	**-$25.238**	**-$25.145**
Year-Over-Year Change	-$24.271	-$0.122	$0.201	-$1.213	$0.167	$0.092
School Surtax Change	*$0.000*	*$0.000*	*$0.000*	*$0.000*	*$0.000*	*$0.000*
Nonfilers Tax Change	*$0.000*	*$0.000*	*$0.000*	*$0.000*	*$0.000*	*$0.000*
Filers and Nonfilers Totals	**-$24.271**	**-$24.393**	**-$24.192**	**-$25.404**	**-$25.238**	**-$25.145**

Fiscal Year Estimates	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Withholding	$0.000	$0.000	$0.000	$0.000	$0.000	$0.000
Estimate Payments	-0.083	-0.322	-0.298	-0.294	-0.287	-0.288
Final Payments	0.000	-8.611	-8.620	-8.588	-0.768	-0.641
Refunds	0.000	-15.010	-15.473	-15.309	-24.346	-24.312
Filers Totals	**-$0.083**	**-$23.942**	**-$24.391**	**-$24.191**	**-$25.401**	**-$25.240**
Year-Over-Year Change	-$0.083	-$23.859	-$0.449	$0.201	-$1.210	$0.161
Nonfilers Tax Change	*$0.000*	*$0.000*	*$0.000*	*$0.000*	*$0.000*	*$0.000*
Filers and Nonfilers Totals	**-$0.083**	**-$23.942**	**-$24.391**	**-$24.191**	**-$25.401**	**-$25.240**

Analysis Using Individual Return Data from Tax Year 2021. The micro model created for FY 2023 legislative session.
Tax Research Bureau, Iowa Department of Revenue
Withholding changes reflect current and proposed withholding formulas and tables.
Translation to fiscal year is based on observed payment streams of taxpayers affected by the proposed policy change.
Amounts may not add up due to rounding.

Table 17. Estimated Distribution of Taxpayers Experiencing Decreases and Increases in Total Tax Liability Under a Scenario to Eliminate the CDC Tax Credit

Estimates for Tax Year 2023

Iowa Taxable Income Current Law	Share of Returns by Estimated Change in State Income Tax and School Surtax Liability[a]			Estimated Change in State Income Tax and School Surtax Liability			
				Taxpayers with Tax Liability Decrease		Taxpayers with Tax Liability Increase	
Resident Filers	**Taxpayers with No Change**	**Taxpayers with Decrease**	**Taxpayers with Increase**	**Total**	**Average**	**Total**	**Average**
$10,000 or less	98.2%	0.0%	1.8%	$0	$0	$6,625,808	$629
$10,001 to 20,000	95.0%	0.0%	5.0%	0	0	3,008,173	461
$20,001 to 30,000	94.7%	0.0%	5.3%	0	0	2,473,335	369
$30,001 to 40,000	95.0%	0.0%	5.0%	0	0	1,850,803	326
$40,001 to 50,000	94.3%	0.0%	5.7%	0	0	1,229,326	225
$50,001 to 60,000	92.8%	0.0%	7.2%	0	0	1,337,159	242
$60,001 to 70,000	90.9%	0.0%	9.1%	0	0	1,439,776	255
$70,001 to 80,000	89.7%	0.0%	10.3%	0	0	1,340,204	253
$80,001 to 90,000	89.1%	0.0%	10.9%	0	0	1,242,455	264
$90,001 to 100,000	100.0%	0.0%	0.0%	0	0	0	0
$100,001 to 125,000	100.0%	0.0%	0.0%	0	0	0	0
$125,001 to 150,000	100.0%	0.0%	0.0%	0	0	0	0
$150,001 to 175,000	100.0%	0.0%	0.0%	0	0	0	0
$175,001 to 200,000	100.0%	0.0%	0.0%	0	0	0	0
$200,001 to 250,000	100.0%	0.0%	0.0%	0	0	0	0
$250,001 to 500,000	100.0%	0.0%	0.0%	0	0	0	0
$500,001 to 1,000,000	100.0%	0.0%	0.0%	0	0	0	0
$1,000,001 or more	100.0%	0.0%	0.0%	0	0	0	0
Resident Filers Total	**96.3%**	**0.0%**	**3.7%**	**$0**	**$0**	**$20,547,039**	**$367**
Nonresident Filers							
$50,000 or less	98.6%	0.0%	1.4%	$0	$0	$361,786	$249
$50,001 to 100,000	97.8%	0.0%	2.2%	0	0	89,527	118
$100,001 to 500,000	100.0%	0.0%	0.0%	0	0	0	0
$500,001 or more	100.0%	0.0%	0.0%	0	0	0	0
Composite Filers	100.0%	0.0%	0.0%	0	0	0	0
Nonresident Filers Total	**98.9%**	**0.0%**	**1.1%**	**$0**	**$0**	**$451,313**	**$204**
All Tax Filers Total	**96.6%**	**0.0%**	**3.4%**	**$0**	**$0**	**$20,998,352**	**$360**

Analysis Using Individual Return Data from Tax Year 2021
Tax Research Bureau, Iowa Department of Revenue
a. Share of Returns by Estimated Change in Tax Liability may not equal 100% due to rounding.

Table 18. Translation of Tax Year Estimated Impact to Fiscal Year Estimated Impacts Under a Scenario to Eliminate the CDC Tax Credit

Millions of Dollars

Tax Year Estimates	TY 2023	TY 2024	TY 2025	TY 2026	TY 2027	TY 2028
Filers:						
Withholding	$0.000	$0.000	$0.000	$0.000	$0.000	$0.000
Estimate Payments	0.251	0.268	0.269	0.273	0.279	0.283
Final Payments	8.791	8.625	8.568	0.862	0.839	0.836
Refunds	11.956	12.527	12.578	22.140	22.154	22.274
Filers Totals	**$20.998**	**$21.420**	**$21.415**	**$23.275**	**$23.271**	**$23.392**
Year-Over-Year Change	$20.998	$0.422	-$0.006	$1.861	-$0.004	$0.121
School Surtax Change	*$0.000*	*$0.000*	*$0.000*	*$0.000*	*$0.000*	*$0.000*
Nonfilers Tax Change	*$0.000*	*$0.000*	*$0.000*	*$0.000*	*$0.000*	*$0.000*
Filers and Nonfilers Totals	**$20.998**	**$21.420**	**$21.415**	**$23.275**	**$23.271**	**$23.392**
Fiscal Year Estimates	**FY 2023**	**FY 2024**	**FY 2025**	**FY 2026**	**FY 2027**	**FY 2028**
Withholding	$0.000	$0.000	$0.000	$0.000	$0.000	$0.000
Estimate Payments	0.071	0.282	0.268	0.271	0.275	0.280
Final Payments	0.000	8.649	8.628	8.569	0.986	0.840
Refunds	0.000	11.785	12.519	12.577	22.003	22.154
Filers Totals	**$0.071**	**$20.716**	**$21.415**	**$21.416**	**$23.265**	**$23.273**
Year-Over-Year Change	$0.071	$20.645	$0.699	$0.001	$1.848	$0.008
Nonfilers Tax Change	*$0.000*	*$0.000*	*$0.000*	*$0.000*	*$0.000*	*$0.000*
Filers and Nonfilers Totals	**$0.071**	**$20.716**	**$21.415**	**$21.416**	**$23.265**	**$23.273**

Analysis Using Individual Return Data from Tax Year 2021. The micro model created for FY 2023 legislative session.
Tax Research Bureau, Iowa Department of Revenue
Withholding changes reflect current and proposed withholding formulas and tables.
Translation to fiscal year is based on observed payment streams of taxpayers affected by the proposed policy change.
Amounts may not add up due to rounding.