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## **Iowa's Claim of Right Tax Credit**

### **Tax Credit 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 review shall consist of evaluating the tax credit and assess its equity, simplicity, competitiveness, public purpose, adequacy, and extent of conformance with the original purpose of the legislation that enacted the tax expenditure, as those issues pertain to taxation in Iowa. This is the third evaluation study completed for this administrative tax credit.

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.

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## **I. Introduction**

The Claim of Right (COR) Tax Credit went into effect for tax years beginning on or after January 1, 1996. A taxpayer is eligible for the COR Tax Credit if they were required to repay income in the current tax year that was reported and taxed on a prior Iowa tax return. The tax credit is refundable and cannot be transferred to another taxpayer. The tax credit can only be claimed against individual income tax.

Section II of this study provides information about the COR Tax Credit. Section III discusses similar credits in other states and in the federal tax code. Section IV looks at statistics related to the COR Tax Credit and the alternative income tax deduction. Estimates of the amount of income repaid will also be provided in Section IV. Section V provides a brief conclusion.

Note that the tables provided in this study cover the tax and revenue effects of both the COR Tax Credit and the COR income tax deduction. Table 1 displays COR Tax Credit data, while Table 2 displays COR income tax deduction data. Where both methods are included in a single table, the tables are divided into sections, where Section A is the COR income tax deduction and Section B is the COR Tax Credit. Section C displays the combined effect. Bookmarks and hyperlinks are provided throughout the study to enable referencing between the narrative and the relevant tables and figures.

## **II. Claim of Right Tax Credit**

The Claim of Right (COR) Tax Credit is an administrative tax credit. It allows taxpayers to exclude from individual income tax taxable income that they received in one year but ended up repaying in a subsequent year. To make a COR Tax Credit claim, the taxpayer is only required to report the claim on the IA 148 Tax Credit Schedule. There is no additional tax credit form where the taxpayer provides the reason for the income repayment underlying the claim, required to claim the tax credit. Therefore, there is little data available as to why taxpayers repay income and thus become eligible for the tax credit. Based on information voluntarily reported on reviewed returns, types of income that are repaid and thus commonly generate a COR Tax Credit claim are disability payments and pension payments.

To calculate the tax credit, the income tax liability for the prior tax year when the income was first reported must be recomputed without the repaid income. The difference between tax paid in the prior tax year and the recomputed tax that was calculated is the amount of the COR Tax Credit that can be claimed.

As an alternative to claiming the COR Tax Credit, taxpayers also have the option of reporting the amount of repaid income as an adjustment to their income in the tax year when the income was repaid on Line 24 of the IA 1040. Instead of claiming a tax credit

for the amount of tax that was paid on the income in a prior year, the returned income is subtracted from the taxpayer's adjusted gross income in the later tax year. Under the progressive individual income tax rates in Iowa, if the taxpayer's marginal tax rate was higher in the year when the income was first received than the marginal tax rate in the tax year in which the income was repaid, the COR Tax Credit would be of greater advantage to the taxpayer. Alternatively, if the taxpayer's marginal tax rate is higher in the tax year the income was *repaid*, the deduction from income would be of greater advantage than the tax credit. The taxpayer can choose whether to claim either the deduction or the tax credit, but they cannot claim both.

The COR Tax Credit is refundable, which means if the tax credit exceeds the tax liability in the tax year of claim, the taxpayer will receive a refund. The tax credit is only available to be claimed against individual income tax.

### **III. The Federal Claim of Right Tax Credit and Similar Tax Credits among Iowa's Neighboring States**

Under federal individual income tax law, either a federal Claim of Right Tax Credit or a deduction is allowed. In order to take the federal COR Tax Credit the amount of income repaid must exceed \$3,000. If the amount of income repaid is less than \$3,000 then the taxpayer must use the income deduction.

The type of deduction allowed in the year of repayment depends on the type of income included in the earlier year. In most cases, the taxpayer deducts the repayment on the same form or schedule on which they previously reported it as income. For example, if the income was reported as self-employment income or farm income, then it should be deducted as a business expense on Schedule C (Form 1040) or Schedule F (Form 1040), respectively. If the income was reported as a capital gain, it should be deducted as a capital loss on Schedule D (Form 1040). If the income was reported as wages, unemployment compensation, or other nonbusiness income such as pension or disability income, then it should be deducted as a miscellaneous itemized deduction on Schedule A (Form 1040).

To determine if the amount repaid exceeds \$3,000, the taxpayer is allowed to combine all income repaid if multiple types of income were repaid during the tax year; repayment amounts do not need to be considered separately. If the amount of income repaid exceeds \$3,000, then the taxpayer should calculate the amount of the federal COR Tax Credit as well as the income deduction and compare the results. The taxpayer should select the method that results in paying the least amount of tax.

Similar to federal tax law, Iowa also allows for taxpayers to claim either the COR Tax Credit or to claim a deduction. However, unlike federal law, Iowa does not have a threshold of repaid income to become eligible to claim the tax credit. In Iowa, the taxpayer

is always allowed to determine whether taking the deduction or the COR Tax Credit is to their advantage.

States have several different ways of handling income taxed in a prior year that was subsequently repaid. Among the states neighboring Iowa, only Wisconsin also allows either a deduction or a tax credit. Illinois and Nebraska allow only an income tax deduction. Minnesota and Missouri do not allow either a deduction from income or a tax credit; thus, those states do not recognize the repayment of income for tax purposes. South Dakota does not have an individual income tax, so the issue is not relevant to its tax system.

## **IV. Analysis of Iowa Claim of Right Tax Credit Claims and Claim of Right Income Deductions**

### **A. Tax Credit Claims and Income Tax Deductions**

While the COR Tax Credit has been available to be claimed since the 1996 tax year, general information about those claims has only been available since the 2006 tax year when the IA 148 Tax Credit Schedule was implemented. This study will examine the COR claims starting in 2013 and going through 2023 with available data. Since 2013, there have been just over 800 claims totaling almost \$1.45 million (see [Table 1](#)). Total COR credit claims average over \$130,000 each tax year. On average, 73 taxpayers claim the COR Tax Credit each year with an average claim of \$1,792. If it is assumed these taxpayers were subject to the highest marginal income tax rate in the year in which the income was first taxed, the repaid income associated with the average claim is \$19,952.

Detailed information about the Claim of Right income tax deduction has only been available since the 2012 tax year when Modernized E-Filing was implemented. Therefore, detailed information is only available for returns that were filed electronically, and paper returns have to be estimated. Using the overall percentage of paper returns in each year, COR deductions were estimated for paper returns and added to the electronic returns to get the total number of income tax deductions per year. It was also assumed the average amount of the COR income tax deduction on paper returns matches that reported on electronic returns in each year. On average, 91 income tax deductions were taken each year with an average deduction of \$4,788 per taxpayer over tax years 2013-2023 (see [Table 2](#)).

Recall, taxpayers are instructed to use the deduction or tax credit, whichever results in a lower tax liability. Based on the estimated \$13,264 in repaid income associated with the average COR Tax Credit claim, compared to the average \$4,788 COR income tax deduction, taxpayers who have repaid larger amounts of income find it to their advantage to claim the COR Tax Credit instead of taking the income tax deduction.

65 percent of households who claim COR Tax Credits and deductions have an adjusted gross household income of less than \$80,000 in tax years 2013-2023, and 35 percent have incomes over \$80,000. This latter percentage is markedly higher than all households combined, among whom only 27 percent reported an adjusted income of greater than \$80,000. (See [Figure 1](#).)

## **B. Estimate of Repaid Income Claimed Annually in Iowa**

As noted in Section II, some states offer no tax adjustments when income taxed in a prior year is repaid while Iowa offers two, one in the form of an income tax deduction, and one in a tax credit. This study will estimate how much repaid income Iowans report each year due to these adjustments to income and taxes. Using the available data, this estimate can be done for tax years 2013 through 2023 by combining the Claim of Right income tax deductions and tax credits.

As shown in [Table 3](#) (section A), COR income tax deductions ranged from \$0.22 million in tax year 2016 to \$0.80 million in tax year 2023. On average, total deductions were just under \$0.44 million per year for the period 2013 through 2023.

The amount of repaid income associated with the COR Tax Credits claims must be estimated because it is not known what marginal tax rate the taxpayer faced in the year when the income was first reported. Using taxable income reported in the year of the tax credit claim, the applicable marginal tax rate for that tax year was estimated. Taxpayers were assumed to have faced the same marginal tax rate in the year the income was first reported. To calculate the amount of repaid income, that marginal tax rate was divided into the amount of the COR Tax Credit that was taken. Based on these calculations it is estimated that total repaid income ranged from a low of \$0.22 million in 2014 to a high of \$6.56 million in 2022, with an average total of \$1.82 million per year for the period 2013-2023 (see [Table 3](#), section B).

Summing over the repaid income associated with the COR Tax Credits and income tax deductions results in total repaid income of \$0.56 million in tax year 2013, with subsequent years ranging from \$0.46 million in tax year 2014 to \$7.05 million in 2022, averaging \$2.26 million per year over years 2013-2023 (see [Table 3](#), section C).

## **C. Estimate of COR Tax Credit Claims' and Income Tax Deductions' Effect on General Fund**

Along with estimating the amount of income that was repaid in a given year, the fiscal impact to the General Fund due to the decrease in taxes was also estimated. [Table 4](#) illustrates the fiscal impact of both the COR income tax deduction and the COR Tax Credit. The fiscal impact of the COR Tax Credit is straight-forward in that it is equal to the amount of tax credit being claimed. The fiscal impact of the COR income tax deduction, however, needs to be derived. Using the total amount of income deductions from [Table 3](#), section A, deductions taken were allocated among household adjusted gross income

(AGI) brackets based on the known allocation of deductions from electronically filed returns. The actual marginal tax rate associated with each taxpayer was then used to estimate the amount of tax that would have been paid on the estimated income deductions. Based on this methodology, the estimated General Fund impact of the Claim of Right income tax deduction ranged from just over \$10,000 in 2013 and 2015 to \$48,000 in 2019 (see [Table 4](#), section A). The fiscal impact of the COR Tax Credit is equal to the amount of refundable tax credits that are claimed in a tax year. This is shown in [Table 4](#), section B. Combining the impact of the COR Tax Credit and the income tax deduction results in a decrease to the General Fund ranging from \$30,000 in 2013 to \$0.52 million in 2022. The average impact of the COR Tax Credit and income tax deductions to the General Fund is less than \$145,000 per year (see [Table 5](#), section C).

## **V. Conclusion**

The Claim of Right Tax Credit is an administrative tax credit that allows taxpayers to receive credit for taxes paid in a prior year on income that the taxpayer ended up repaying in a later tax year. As an alternative to the tax credit, taxpayers can elect to reduce their current year income by the amount of prior year income repaid. In the seven years that were evaluated, it was determined that although the repaid income can range quite widely from year to year, the overall estimated impact to the General Fund of COR is relatively small, and is typically less than \$200,000.



**Iowa's Claim of Right Tax Credit  
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Tables and Figures**

**Table 1. Claim of Right Tax Credit Claims, Tax Years 2013 – 2023**

<b>Tax Year</b>	<b>Number of Claims</b>	<b>Amount of Claims</b>	<b>Average Claim Amount</b>
2013	33	\$17,949	\$544
2014	18	\$16,415	\$912
2015	39	\$62,178	\$1,594
2016	21	\$32,695	\$1,557
2017	64	\$69,466	\$1,085
2018	91	\$84,833	\$932
2019	107	\$135,810	\$1,269
2020	130	\$163,286	\$1,256
2021	115	\$289,065	\$2,514
2022	141	\$484,268	\$3,435
2023	44	\$82,757	\$1,881
Total	803	\$1,438,722	
Average	73	\$130,793	\$1,792

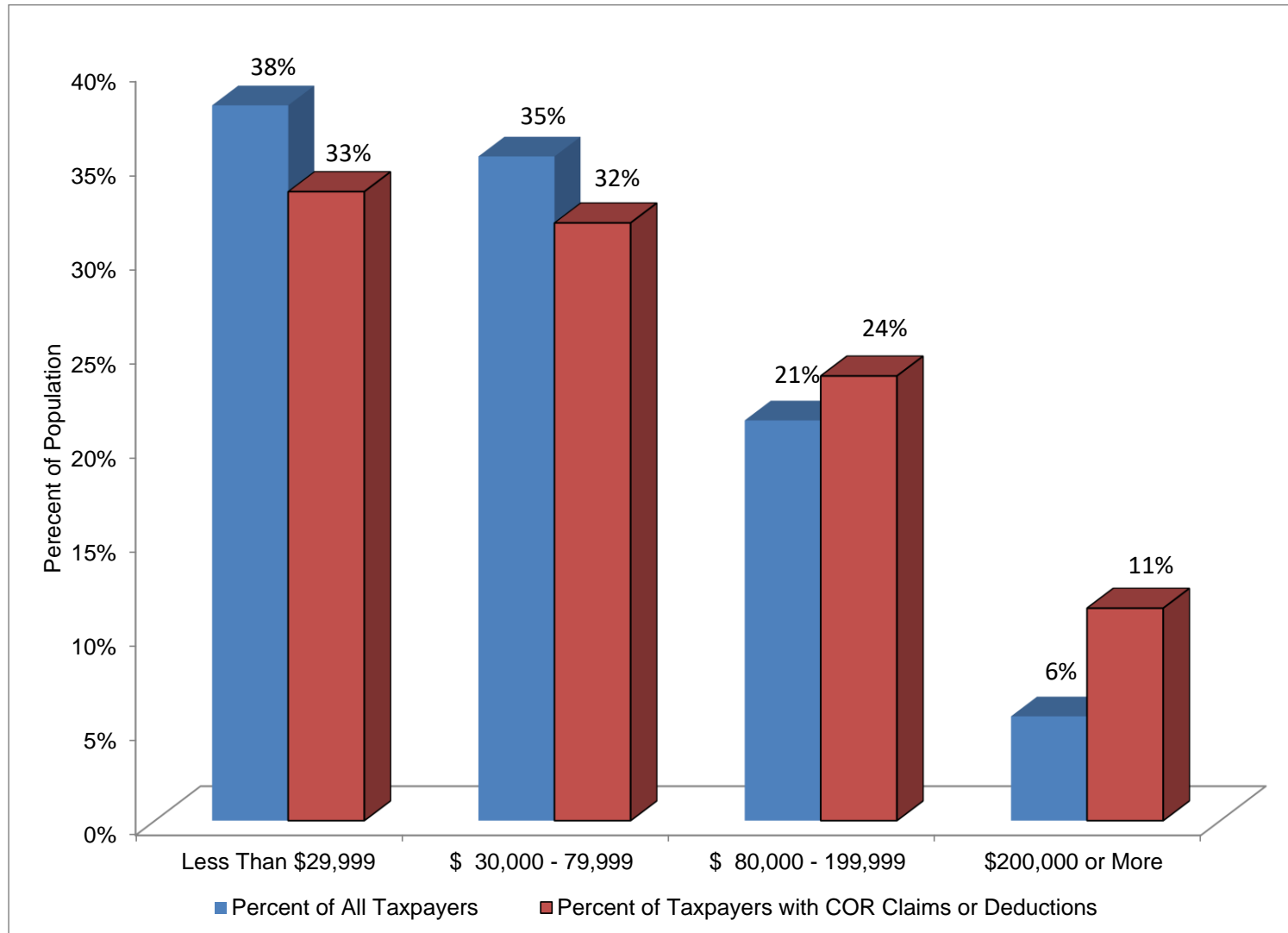
Source: Iowa Department of Revenue, IA 148 Tax Credit Schedule

**Table 2. Claim of Right Income Tax Deductions, Tax Years 2013 – 2023**

<b>Tax Year</b>	<b>Number of Taxpayers</b>	<b>Total Deduction by Year</b>	<b>Average Deduction per Taxpayer</b>
2013	91	\$319,691	\$3,513
2014	57	\$242,490	\$4,232
2015	58	\$252,152	\$4,364
2016	48	\$221,131	\$4,628
2017	54	\$339,453	\$6,304
2018	57	\$363,915	\$6,369
2019	77	\$782,838	\$10,167
2020	84	\$484,427	\$5,767
2021	225	\$499,062	\$2,218
2022	109	\$487,558	\$4,473
2023	142	\$804,599	\$5,666
Total	1,002	\$4,797,316	
Average	91	\$436,120	\$4,788

Source: Iowa Department of Revenue, IA 1040 Individual Income Tax Returns

**Figure 1. Percent of Taxpayers with a Claim of Right Deduction or Tax Credit Compared to All Tax Filers by Adjusted Gross Income, Tax Years 2013-2023**



Source: Iowa Department of Revenue, IA 1040 Individual Income Tax Returns and IA 148 Tax Credit Schedule

**Table 3. Estimate of Income Repaid by Taxpayers with Claim of Right Income Deductions and Tax Credits, Tax Years 2013 - 2023**

Tax Year	<sup>A</sup> COR Income Deductions		<sup>B</sup> COR Tax Credit Claims		<sup>C</sup> Total Est. Income Repaid	
	Number of Taxpayers	Income Repaid	Number of Taxpayers	Estimated Income Repaid	Number of Taxpayers	Total Estimated Income Repaid
2013	91	\$319,691	33	\$241,797	124	\$561,488
2014	57	\$242,490	18	\$222,200	75	\$464,689
2015	58	\$252,152	39	\$758,982	97	\$1,011,134
2016	48	\$221,131	21	\$443,119	69	\$664,250
2017	54	\$339,453	64	\$890,289	118	\$1,229,742
2018	57	\$363,915	91	\$1,144,980	148	\$1,508,895
2019	77	\$782,838	107	\$1,989,790	184	\$2,772,628
2020	84	\$484,427	130	\$2,485,655	214	\$2,970,082
2021	225	\$499,062	115	\$4,288,410	340	\$4,787,472
2022	109	\$487,558	141	\$6,561,351	250	\$7,048,909
2023	142	\$804,599	44	\$1,035,393	186	\$1,839,992
Average	91	\$436,120	73	\$1,823,815	164	\$2,259,935

Note: Data include estimates for paper returns.

Source: Iowa Department of Revenue, IA 148 Tax Credit Schedule and IA 1040 Individual Income Tax Return

**Table 4. Estimated General Fund Impact of Claim of Right Income Deductions and Tax Credits, Tax Years 2013 - 2023**

Household Adjusted Gross Income	<sup>A</sup> COR Income Deductions			<sup>B</sup> COR Tax Credit	<sup>C</sup> Total
	Amount of Income Tax Deductions	Average Marginal Tax Rate	Estimated General Fund Impact*	General Fund Impact	Estimated General Fund Impact
2013					
Less Than \$29,999	\$202,424	0.47%	-\$958	-\$5,146	-\$6,104
\$ 30,000 - 79,999	\$39,280	6.71%	-\$2,637	-\$10,158	-\$12,795
\$ 80,000 - 199,999	\$70,439	8.15%	-\$5,742	-\$1,619	-\$7,361
\$200,000 or More	\$7,548	8.98%	-\$678	-\$1,026	-\$1,704
	\$319,691	3.13%	-\$10,015	-\$17,949	-\$27,964
2014					
Less Than \$29,999	\$33,845	0.95%	-\$321	-\$6,095	-\$6,416
\$ 30,000 - 79,999	\$66,736	4.56%	-\$3,041	-\$5,157	-\$8,198
\$ 80,000 - 199,999	\$72,246	8.47%	-\$6,118	-\$2,392	-\$8,510
\$200,000 or More	\$69,663	8.98%	-\$6,256	-\$2,771	-\$9,027
	\$242,490	6.49%	-\$15,736	-\$16,415	-\$32,151
2015					
Less Than \$29,999	\$91,376	2.16%	-\$1,974	-\$12,895	-\$14,869
\$ 30,000 - 79,999	\$58,777	3.14%	-\$1,846	-\$7,499	-\$9,345
\$ 80,000 - 199,999	\$31,836	8.87%	-\$2,824	-\$17,960	-\$20,784
\$200,000 or More	\$70,164	5.29%	-\$3,710	-\$23,824	-\$27,534
	\$252,152	4.11%	-\$10,353	-\$62,178	-\$72,531
2016					
Less Than \$29,999	\$55,032	1.73%	-\$954	-\$13,347	-\$14,301
\$ 30,000 - 79,999	\$32,433	6.71%	-\$2,176	-\$6,424	-\$8,600
\$ 80,000 - 199,999	\$110,739	5.96%	-\$6,597	-\$5,598	-\$12,195
\$200,000 or More	\$22,927	8.98%	-\$2,059	-\$7,326	-\$9,385
	\$221,131	5.33%	-\$11,786	-\$32,695	-\$44,481
2017					
Less Than \$29,999	\$98,468	0.58%	-\$573	-\$22,430	-\$23,003
\$ 30,000 - 79,999	\$75,403	3.95%	-\$2,980	-\$21,096	-\$24,076
\$ 80,000 - 199,999	\$63,522	7.37%	-\$4,682	-\$6,858	-\$11,540
\$200,000 or More	\$102,059	8.10%	-\$8,271	-\$19,082	-\$27,353
	\$339,453	4.86%	-\$16,506	-\$69,466	-\$85,972
2018					
Less Than \$29,999	\$92,500	3.27%	-\$3,021	-\$30,173	-\$33,194
\$ 30,000 - 79,999	\$29,040	6.23%	-\$1,809	-\$29,033	-\$30,842
\$ 80,000 - 199,999	\$99,290	8.59%	-\$8,527	-\$15,773	-\$24,300
\$200,000 or More	\$143,084	8.95%	-\$12,812	-\$9,854	-\$22,666
	\$363,915	7.19%	-\$26,169	-\$84,833	-\$111,002

**Table 4. Estimated General Fund Impact of Claim of Right Income Deductions and Tax Credits, Tax Years 2013 - 2023 (continued)**

Household Adjusted Gross Income	<sup>A</sup> COR Income Deductions			<sup>B</sup> COR Tax Credit	<sup>C</sup> Total
	Amount of Income Tax Deductions	Average Marginal Tax Rate	Estimated General Fund Impact*	General Fund Impact	Estimated General Fund Impact
2019					
Less Than \$29,999					
	\$267,935	5.45%	-\$14,593	-\$61,340	-\$75,933
\$ 30,000 - 79,999	\$209,084	9.15%	-\$19,140	-\$44,022	-\$63,162
\$ 80,000 - 199,999	\$224,386	3.10%	-\$6,946	-\$16,209	-\$23,155
\$200,000 or More	\$81,433	8.48%	-\$6,904	-\$14,239	-\$21,143
	\$782,838	6.08%	-\$47,583	-\$135,810	-\$183,393
2020					
Less Than \$29,999					
	\$117,365	1.29%	-\$1,510	-\$97,022	-\$98,532
\$ 30,000 - 79,999	\$108,856	6.92%	-\$7,533	-\$41,857	-\$49,390
\$ 80,000 - 199,999	\$227,253	8.53%	-\$19,385	-\$19,899	-\$39,284
\$200,000 or More	\$30,953	8.53%	-\$2,640	-\$4,508	-\$7,148
	\$484,427	6.41%	-\$31,068	-\$163,286	-\$194,354
2021					
Less Than \$29,999					
	\$179,074	2.04%	-\$3,654	-\$170,293	-\$173,947
\$ 30,000 - 79,999	\$138,538	6.62%	-\$9,169	-\$37,961	-\$47,130
\$ 80,000 - 199,999	\$115,010	8.53%	-\$9,810	-\$10,280	-\$20,090
\$200,000 or More	\$66,440	8.53%	-\$5,667	-\$70,531	-\$76,198
	\$499,062	5.67%	-\$28,301	-\$289,065	-\$317,366
2022					
Less Than \$29,999					
	\$109,016	3.63%	-\$3,961	-\$126,289	-\$130,250
\$ 30,000 - 79,999	\$182,215	6.66%	-\$12,130	-\$102,391	-\$114,521
\$ 80,000 - 199,999	\$132,987	8.53%	-\$11,344	-\$59,712	-\$71,056
\$200,000 or More	\$63,340	8.53%	-\$5,403	-\$195,876	-\$201,279
	\$487,558	6.74%	-\$32,838	-\$484,268	-\$517,106
2023					
Less Than \$29,999					
	\$111,189	4.48%	-\$4,985	-\$3,176	-\$8,161
\$ 30,000 - 79,999	\$102,045	5.70%	-\$5,820	-\$9,141	-\$14,961
\$ 80,000 - 199,999	\$312,374	6.00%	-\$18,742	-\$19,955	-\$38,697
\$200,000 or More	\$278,991	6.00%	-\$16,739	-\$50,485	-\$67,224
	\$804,599	5.75%	-\$46,287	-\$82,757	-\$129,044

Source: Iowa Department of Revenue, IA 148 Tax Credit Schedule and IA 1040 Individual Income Tax Returns

**Table 5. Average General Fund Impact of Claim of Right Income Deductions and Tax Credits, Tax Years 2013-2023**

Household Adjusted Gross Income	<sup>A</sup> COR Income Deductions			<sup>B</sup> COR Tax Credit	<sup>C</sup> Total
	Average Income Tax Deduction	Average Marginal Tax Rate	Average General Fund Impact*	Average General Fund Impact	Average General Fund Impact
Tax Years 2013-2023					
Less Than \$29,999	\$123,475	2.46%	-\$3,042	-\$45,684	-\$48,726
\$ 30,000 - 79,999	\$94,764	6.00%	-\$5,690	-\$26,228	-\$31,918
\$ 80,000 - 199,999	\$132,735	6.32%	-\$8,393	-\$14,688	-\$23,081
\$200,000 or More	\$85,146	6.96%	-\$5,928	-\$33,294	-\$39,222
	\$436,120	5.29%	-\$23,054	-\$119,894	-\$142,947

\*General Fund Impact of COR deductions was estimated using the actual marginal tax rate incurred by each taxpayer when taking the deduction, times the deduction amount.