

MAR 30 2006
WAYS & MEANS CALENDAR

HOUSE FILE 2787
BY COMMITTEE ON WAYS AND MEANS

(SUCCESSOR TO HSB 774)

Passed House, Date _____ Passed Senate, Date _____
Vote: Ayes _____ Nays _____ Vote: Ayes _____ Nays _____
Approved _____

A BILL FOR

1 An Act relating to the child and dependent care and early
2 childhood development income tax credits by increasing the net
3 income limits for eligibility, eliminating the limit on the
4 amount of credits allowed, and including a retroactive
5 applicability date provision.

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

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HF 2787

1 Section 1. Section 422.12C, subsection 1, paragraph g,
2 Code Supplement 2005, is amended to read as follows:

3 g. For a taxpayer with a net income of forty-five thousand
4 dollars or more, ~~zero~~ but less than fifty thousand dollars,
5 twenty-five percent.

6 Sec. 2. Section 422.12C, subsection 1, Code Supplement
7 2005, is amended by adding the following new paragraphs:

8 NEW PARAGRAPH. h. For a taxpayer with net income of fifty
9 thousand dollars or more but less than fifty-five thousand
10 dollars, twenty percent.

11 NEW PARAGRAPH. i. For a taxpayer with net income of
12 fifty-five thousand dollars or more, zero percent.

13 Sec. 3. Section 422.12C, subsection 2, paragraph a,
14 unnumbered paragraph 1, Code Supplement 2005, is amended to
15 read as follows:

16 In lieu of the child and dependent care credit authorized
17 in subsection 1, a taxpayer may claim an early childhood
18 development tax credit equal to twenty-five percent of the
19 first one thousand dollars which the taxpayer has paid to
20 others for each dependent, as defined in the Internal Revenue
21 Code, ages three through five for early childhood development
22 expenses. ~~In-determining-the-amount-of-early-childhood~~
23 ~~development-expenses,-such-expenses-paid-during-November-and~~
24 ~~December-of-the-previous-tax-year-shall-be-considered-paid-in~~
25 ~~the-tax-year-for-which-the-tax-credit-is-claimed.~~ This credit
26 is available to a taxpayer whose net income is less than
27 ~~forty-five~~ fifty-five thousand dollars. If the early
28 childhood development tax credit is claimed for a tax year,
29 the taxpayer and the taxpayer's spouse shall not claim the
30 child and dependent care credit under subsection 1. As used
31 in this subsection, "early childhood development expenses"
32 means services provided to the dependent by a preschool, as
33 defined in section 237A.1, materials, and other activities as
34 follows:

35 Sec. 4. Section 422.12C, subsection 2, paragraph b, Code

1 Supplement 2005, is amended by striking the paragraph.

2 Sec. 5. RETROACTIVE APPLICABILITY DATE. This Act applies
3 retroactively to January 1, 2006, for tax years beginning on
4 or after that date.

5 EXPLANATION

6 This bill makes the child and dependent care tax credit and
7 the early childhood development tax credit available to
8 taxpayers with net incomes of less than \$55,000. Present law
9 limits such tax credits to those taxpayers with net incomes of
10 less than \$45,000. The amount of the child and dependent care
11 tax credit is a percentage of the federal tax credit. The
12 bill provides that the credit equals 25 percent for taxpayers
13 with net incomes between \$45,000 and \$50,000 and 20 percent
14 for taxpayers with net incomes between \$50,000 and \$55,000.

15 Present law limits the amount of early childhood
16 development tax credits allowed in any tax year to \$2.5
17 million. The bill strikes the provision relating to the
18 dollar amount limitation and other related provisions.

19 The bill applies retroactively to January 1, 2006, for tax
20 years beginning on or after that date.

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Fiscal Services Division
Legislative Services Agency
Fiscal Note

HF 2787 - Child & Dependent Care Credit/Early Childhood Credit (LSB 6627 HV)
Analyst: Jeff Robinson (Phone: [515] 281-4614) (jeff.robinson@legis.state.ia.us)
Fiscal Note Version - New

Description

House File 2787 extends the Child and Dependent Care Tax Credit and the Early Childhood Development Tax Credit available to taxpayers with a net income of \$55,000 or less. Present law limits the income to a maximum of \$45,000. Current law limits total annual claims for the Early Childhood Development Tax Credit to \$2.5 million. This Bill removes the limit. The Bill is retroactive to January 1, 2006.

Assumptions

1. The estimate of the fiscal impact of the tax credit expansion in HF 2787 was prepared using the Department of Revenue's income tax simulation model. That model is based on the actual Iowa tax returns filed for tax year 2003.
2. All impact is assumed to occur during the tax filing process.
3. The local option income tax for schools averages 3.0% of State tax liability.

Fiscal Impact

The tax credit expansions in HF 2787 are projected to reduce net General Fund income tax receipts by \$2.7 million per year, beginning FY 2007. The credit expansion will also reduce local option income tax revenue \$81,000 per year.

Source

Department of Revenue

/s/ Holly M. Lyons

April 3, 2006

The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Fiscal Services Division, Legislative Services Agency to members of the Legislature upon request.

Kaufmann, Chair
Upmeyer
Jochum

HSB 774

WAYS AND MEANS

Succeeded By

SF 0 2787

HOUSE FILE _____

BY (PROPOSED COMMITTEE ON
WAYS AND MEANS BILL BY
CHAIRPERSON VAN FOSSEN)

Passed House, Date _____ Passed Senate, Date _____

Vote: Ayes _____ Nays _____ Vote: Ayes _____ Nays _____

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S.F. _____ H.F. _____

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