

Purpose and Summary

An employer child care tax credit is authorized pursuant to Iowa Code section 237A.31 as amended by 2023 Iowa Acts, Senate File 181. IEDA is directed to prescribe the form and manner of application for the credit by rulemaking.

Analysis of Impact

1. Persons affected by the proposed rulemaking:

- Classes of persons that will bear the costs of the proposed rulemaking:

Businesses that apply for the employer child care tax credit will bear the costs of the proposed rules.

- Classes of persons that will benefit from the proposed rulemaking:

Businesses that apply for and are approved for the tax credit will benefit from the rules.

2. Impact of the proposed rulemaking, economic or otherwise, including the nature and amount of all the different kinds of costs that would be incurred:

- Quantitative description of impact:

Businesses interested in applying for the tax credit will require staff time to complete an application. The cost of this staff time will vary depending on the compensation of such staff. IEDA expects the application to be relatively simple and, therefore, to require minimal time to complete.

Businesses will incur the cost of the certified public accountant (CPA) attestation proposed to be required to accompany the application. This cost will vary depending on the compensation of the CPA selected by the business, the amount of the potentially qualified costs, and the complexity of the review required. IEDA expects the attestation for the child care tax credit to cost between \$1,000 and \$3,000. This estimate is based on a small sampling of accountant costs indicated by applicants in the context of the historic preservation tax credit administered by IEDA. The historic preservation tax credit also requires a CPA attestation as proposed in these rules.

- Qualitative description of impact:

Beyond the direct benefit of the tax credit to approved businesses, employees of approved businesses who require child care are likely to benefit from implementation of the tax credit.

3. Costs to the State:

- Implementation and enforcement costs borne by the agency or any other agency:

IEDA anticipates utilizing existing staff to develop an application form and process and to review and approve applications.

- Anticipated effect on state revenues:

The rules have no anticipated fiscal impact beyond that of the legislation implemented. Iowa Code section 237A.31 limits the aggregate amount of tax credits that IEDA may approve to \$2 million per fiscal year.

4. Comparison of the costs and benefits of the proposed rulemaking to the costs and benefits of inaction:

IEDA will not be able to carry out its administrative duties for the tax credit without prescribing the form and manner of application. The only businesses that bear the costs of the rules are those that will potentially benefit from the tax credit.

5. Determination whether less costly methods or less intrusive methods exist for achieving the purpose of the proposed rulemaking:

Eliminating the proposed requirement of CPA attestation would be less costly for applicants. See additional information under paragraph "6."

6. Alternative methods considered by the agency:

- Description of any alternative methods that were seriously considered by the agency:

Eliminating the proposed requirement of CPA attestation would be less costly for applicants. IEDA staff would instead need to verify the amount of qualified child care expenditures incurred in Iowa.

- Reasons why alternative methods were rejected in favor of the proposed rulemaking:

If no CPA attestation is completed and submitted by applicants, a similar procedure of verifying qualified costs would instead need to be completed by IEDA staff. Applicants could receive a tax credit of up to \$150,000. Because of the potential benefit, it is reasonable to expect applicants to bear the cost of verification. In addition to shifting the cost of verification to applicants, relying on submittal of a CPA attestation is expected to allow IEDA to issue tax credits for eligible expenditures more quickly than if staff were required to verify eligibility of costs.

The CPA attestation procedure is utilized in other tax credits administered by IEDA, including historic preservation tax credits and the workforce housing tax incentive program. See Iowa Code sections 404A.3(5) and 15.354(3)“d.” An audit procedure completed by a CPA is also required for the redevelopment tax credit program (for brownfield and grayfield redevelopment). See Iowa Code section 15.293B(5).

Small Business Impact

If the rulemaking will have a substantial impact on small business, include a discussion of whether it would be feasible and practicable to do any of the following to reduce the impact of the rulemaking on small business:

- Establish less stringent compliance or reporting requirements in the rulemaking for small business.
- Establish less stringent schedules or deadlines in the rulemaking for compliance or reporting requirements for small business.
- Consolidate or simplify the rulemaking’s compliance or reporting requirements for small business.
- Establish performance standards to replace design or operational standards in the rulemaking for small business.
- Exempt small business from any or all requirements of the rulemaking.

If legal and feasible, how does the rulemaking use a method discussed above to reduce the substantial impact on small business?

The rules do not have a substantial impact on small business. The rules do not establish compliance or reporting requirements relating to the tax credit. The rules do not establish design or operational standards.

Text of Proposed Rulemaking

CHAPTER 57 EMPLOYER CHILD CARE TAX CREDIT

261—57.1(237A) Definitions.

“*Authority*” means the economic development authority created in Iowa Code section 15.105.

“*Department*” means the Iowa department of revenue.

“*Federal credit*” means the federal employer-provided child care tax credit provided in Section 45F of the Internal Revenue Code.

“*Qualified child care expenditure*” means the same as defined in Section 45F of the Internal Revenue Code.

“*Qualified child care facility*” means the same as defined in Section 45F of the Internal Revenue Code.

“*Qualified child care resource and referral expenditure*” means the same as defined in Section 45F of the Internal Revenue Code.

“*Tax credit*” means the amount a taxpayer may claim against the taxes imposed in Iowa Code chapter 422, subchapters II, III, and V, and in Iowa Code chapter 432, and against the moneys and credits tax imposed in Iowa Code section 533.329.

261—57.2(237A) Authorization of tax credits.

57.2(1) An employer child care tax credit is authorized pursuant to Iowa Code section 237A.31 as amended by 2023 Iowa Acts, Senate File 181.

57.2(2) The proportion of a taxpayer’s federal credit attributable to expenditures made in Iowa equals the ratio that the sum of the amount described in paragraph 57.2(2)“a” bears to the sum total of the amount described in paragraph 57.2(2)“b.” The ratio shall be expressed as a percentage rounded to the nearest hundredth percent.

a. The qualified child care expenditures paid or incurred with respect to a qualified child care facility in Iowa, plus qualified child care resource and referral expenditures paid or incurred with respect to Iowa employees.

b. The qualified child care expenditures and qualified child care resource and referral expenditures.

261—57.3(237A) Application and issuance process.

57.3(1) The authority will develop a standardized application pertaining to the authorization and distribution of tax credits. The application will request information relating to the taxpayer's eligibility for the federal credit, the proportion of the federal credit attributable to expenditures made by the taxpayer in Iowa as calculated pursuant to subrule 57.2(2), and any other information required by the authority. The certified public accountant (CPA) examination conducted pursuant to rule 261—57.4(237A) shall be submitted with the application.

57.3(2) Taxpayers shall submit an application for the credit within 90 calendar days of the end of the tax year during which qualified child care expenditures and qualified child care resource and referral expenditures are paid or incurred.

57.3(3) The authority shall issue tax credit certificates in the order the applications are determined complete and qualified until the maximum aggregate amount of tax credits that may be authorized pursuant to Iowa Code section 237A.31(3)“a” is reached. Applications for tax credits received in excess of the maximum aggregate amount of tax credits available each fiscal year will be denied by the authority.

57.3(4) The authority will issue a tax credit certificate to an approved taxpayer in an amount that represents the maximum amount of tax credit the taxpayer may claim. To receive the tax credit, the taxpayer shall file a claim with the department in accordance with any applicable administrative rules adopted by the department. An approved taxpayer's tax credit may be subject to reduction in such circumstances described by any applicable rules adopted by the department.

261—57.4(237A) CPA examination.

57.4(1) A taxpayer shall engage a certified public accountant authorized to practice in this state to conduct an examination of the taxpayer's qualified child care expenditures and qualified child care resource and referral expenditures in accordance with the American Institute of Certified Public Accountants' statements on standards for attestation engagements. The attestation applicable to this examination is SSAE No. 10 (as amended by SSAE Nos. 11, 12, 14), AT section 101 and AT section 601.

57.4(2) The procedures used by the CPA to conduct the examination should allow the CPA to conclude that, in the CPA's professional judgment, the qualified child care expenditures paid or incurred with respect to a qualified child care facility in Iowa and qualified child care resources and referral expenditures paid or incurred with respect to Iowa employees are eligible for a tax credit pursuant to Iowa Code section 237A.31 and all rules adopted by the authority and by the department pursuant to Iowa Code section 237A.31 in all material respects. The documents reviewed by the CPA shall be provided to the authority upon request. The authority may deny a tax credit application if such documents are requested and are not provided to the authority within 60 days.

These rules are intended to implement Iowa Code section 237A.31 as amended by 2023 Iowa Acts, Senate File 181.