



Iowa Department of **REVENUE**

Iowa Tax Year 2013 Taxpayers Trust Fund Tax Credit Report

January 30, 2015

Summary

The Iowa Taxpayers Trust Fund (TTF) Tax Credit is a nonrefundable individual income tax credit available for all eligible taxpayers with Iowa tax liability who timely filed Iowa individual income tax returns. It is a direct payment back to Iowa taxpayers on their income tax returns of surplus funds accumulated in the Taxpayers Trust Fund. It was enacted in 2013 and initially funded with \$120 million. In tax year 2013, the TTF Tax Credit was the lesser of \$54 for a single taxpayer and \$108 for a married couple or their net tax liability after accounting for all other tax credits.

This report is based on all tax returns through final review as of Jan 7, 2015 for tax year 2013. The TTF Tax Credit can be claimed on tax year 2013 returns filed through October 31, 2014. The major findings are these:

- A total of 1.2 million households claimed \$88.3 million of TTF Tax Credit. The average claim amount was \$76 per return or \$51 per individual claimant. Overall, around three-fourths of taxpayers (74.8 percent of households or 77.4 percent of eligible individuals) were able to claim the tax credit.
- During the return review process, the Department adjusted the TTF Tax Credit amount on an estimated 5.1 percent of returns because errors were discovered, including increasing the tax credit amount on 2.8 percent of returns and decreasing the tax credit on 2.3 percent (see Table 1).
- Taxpayers with adjusted gross income below \$50,000 accounted for 51.4 percent of the tax credit claims and 41.4 percent of the credit amount claimed (see Table 2). For those whose income fell below \$20,000, only one-third claimed the TTF Tax Credit, noticeably lower than the share of all taxpayers able to make a claim at 74.8 percent. This reflects that many low-income taxpayers did not have any tax liability against which to claim this nonrefundable tax credit.
- Only 67.5 percent of unmarried taxpayers were able to claim the TTF Tax Credit with an average claim of \$53 per return (see Table 3). For married taxpayers, 83.4 percent of households were able to claim the TTF Tax Credit with an average claim of \$98 per return or \$50 per individual claimant. Residents claimed

90.7 percent of the TTF Tax Credit amount (with composite filers included as nonresidents).

- Besides creating the TTF Tax Credit, another major legislative change to the 2013 Iowa individual income tax code was a doubling of the EITC. Only 43.8 percent of Iowa EITC claimants also claimed the TTF Tax Credit (see Table 4). This reflects that the EITC reduced tax liability of many EITC claimants, making them not able to claim the TTF Tax Credit.
- The Department transferred \$84.6 million from the Taxpayers Trust Fund Tax Credit Trust Fund during FY 2014 to cover claims made on tax year 2013 returns. An additional \$3.7 million of claims were made on returns during FY 2015.

I. Tax Year 2013 Taxpayers Trust Fund Tax Credit

The Taxpayers Trust Fund (TTF) Tax Credit was created to provide tax relief to lowans from the General Fund surplus that exceeds the amount necessary to fill up the State's Cash Reserve and Economic Emergency Funds. The purpose is to return the surplus to taxpayers who have positive tax liability in a given tax year and therefore likely contributed to that surplus in the previous tax year. It is established in Iowa Code Section 8.57E, as part of the bill enacting Governor Branstad's 2013 Commercial Property Tax Reform package, 2013 Iowa Acts Senate File 295. The statute requires the moneys in the Trust Fund to be used solely for tax relief through an appropriation made by the General Assembly. The TTF Tax Credit became available beginning in tax year 2013.

The Director of the Iowa Department of Revenue (IDR) is tasked with determining annually the amount of the TTF Tax Credit under 422.11E (3). The credit equals the transfer from the Taxpayers Trust Fund at the end of a fiscal year divided by the number of eligible individuals for the tax year immediately preceding the tax year for which the credit is allowed. Eligible individual is defined as an individual who makes and files an individual income tax return (an estate or trust is excluded from being an eligible individual), including each spouse filing a joint return or filing married separate on the same return, all taxpayers filing on a composite return, and a single taxpayer who files a return but is claimed as a dependent on someone else's return. To be an eligible individual, a tax return must be filed timely, which is defined as returns filed by the end of the six-month extension period which is October 31.¹

The TTF Tax Credit is an individual income tax credit. It is nonrefundable, but it is more restrictive than other nonrefundable credits because it is applied against State income tax liability after applying any other nonrefundable and refundable tax credits, but before application of any withholding and estimated tax payments. There is no carry forward of any excess credit that is unused.

For tax year 2013, the Iowa Department of Management certified that \$120 million was available in the Iowa Taxpayers Trust Fund Tax Credit Fund to be distributed as the income tax credit. The number of eligible individuals filing timely returns (by October 31, 2013) in tax year 2012 was 2.21 million, resulting in a \$54 TTF Tax Credit available for all eligible individuals who file an Iowa income tax return for the 2013 tax year.² The credit could be claimed on Line 64 of the 2013 Iowa Individual Tax Form 1040.

¹ Filers of returns that are filed electronically on October 31 but rejected have an additional 10 days to refile and still be considered timely.

² The TTF Tax Credit for tax year 2014 has been calculated to equal \$15 for a single eligible individual and \$30 for a married eligible couple.

II. Department Review of Taxpayers Trust Fund Tax Credit Claims

During the Department return review process, TTF Tax Credit claims were adjusted if the amount claimed by taxpayers was incorrect. For all returns through the final review process as of January 7, 2015, the TTF Tax Credit claims reported by taxpayers on electronically filed returns were matched with the outcomes from the IDR review process to estimate the extent of adjustments. The TTF Tax Credit amount claimed by the taxpayer was confirmed to be correct on 94.9 percent of returns (see Table 1).³ The Department adjusted the TTF Tax Credit claims on 5.1 percent of returns: the TTF Tax Credit amount was raised on 2.8 percent of returns and was reduced on 2.3 percent. In particular, the Department calculated TTF Tax Credit claims totaling \$2.4 million for 2.6 percent of returns where taxpayers failed to claim it (one possible reason is lacking knowledge about the tax credit). In addition, the TTF Tax Credit claims on 0.3 percent of returns were set to zero by the Department because the taxpayers were determined to be unable to claim the tax credit.

Hereafter, TTF Tax Credit claims in this report reflect the claims that have been reviewed and adjusted by the Department on returns through final review. Returns through final review means returns that have been received and reviewed by the Department, been revised or corrected if there are any errors identified, and refunds have been issued when applicable.

III. Taxpayers Trust Fund Tax Credit Claimant Characteristics

Out of the 1.5 million of tax returns through final review, 1.2 million returns (74.8%), or 1.7 million individuals (77.4%), claimed TTF Tax Credit (see Table 2). The total claimed by these taxpayers was \$88.3 million, with an average claim of \$76 per return or \$51 per individual claimant.

Taxpayers with low adjusted gross income (AGI) less than \$50,000 accounted for over half (51.4%) of the claimants and 41.4 percent of the TTF Tax Credit claims (see Table 2). Those with AGI below \$20,000 had the lowest average claim at \$51 per return or \$48 per individual claimant, reflecting some households did not have enough tax liability to claim the full amount of this nonrefundable credit (see Table 2). Only around one-third (32.3%) of taxpayers with income below \$20,000 were able to claim this credit, which is much lower than the share in all of the rest of the income groups. This indicates that a large percentage of low-income taxpayers did not have any tax liability against which to claim this tax credit. It is notable that the average TTF Tax Credit claim per individual claimant for high-income taxpayers with AGI over \$500,000 was only \$49. This can be attributed to nonresidents; compared with residents, nonresidents had a lower average TTF Tax Credit claim per individual claimant and they comprised a higher proportion in high-income groups. The composite return filers had the highest average claim per return at \$375 since many returns included more than two eligible individuals.

³ In all the returns filed through review process, 11 percent of returns were paper returns. For simplicity, they are excluded from the analysis of the adjustments made by the Department.

In total, 67.5 percent of returns filed by unmarried taxpayers - including single, head of household or qualifying widow(er) - were able to claim the TTF Tax Credit with an average claim equal to \$53 per return (see Table 3). By contrast, 83.4 percent of married filers claimed the TTF Tax Credit with average TTF Tax Credit claim of \$98 per return or \$50 per individual claimant.

Taxpayers claimed as a dependent on someone else's return accounted for 2.5 percent of the TTF Tax Credit dollars claimed, as only 45.9 percent were able to claim the TTF (see Table 3). Their average claim was only \$43 per return.

The TTF Tax Credit claimants were concentrated in ages (defined using the primary taxpayer's age) between 30 and 59, with over 80 percent able to make a claim (see Table 3). For those younger than 20 or older than 80, only around 40 percent of taxpayers were able to claim the tax credit.

Over 90 percent of the TTF Tax Credit claims in terms of claim amount were accounted for by Iowa residents. Nonresidents (including composite return filers) accounted for only 9.3 percent of all the claims, as only 69.8 percent were able to make a claim (see Table 3). Based on the county reported by households on the tax returns, 77.0 percent of residents in urban counties claimed the TTF Tax Credit. For residents in nonurban counties, the share was slightly lower at 73.7 percent.

Across the 99 counties, the share of taxpayers able to claim the TTF Tax Credit ranged from 82.0 percent in Dallas County to 63.3 percent in Decatur County (see Figure 1). Only one county (Decatur County) had a claim share in a range of 60-65 percent, 15 counties with 66-70 percent, 57 counties with 71-75 percent, and 26 counties with over 75 percent.

IV. Taxpayers Trust Fund Tax Credit Claiming by Iowa EITC Claimants

There were two major legislative changes in the Iowa individual income tax code in 2013: one was the creation of the TTF Tax Credit; the other one was raising the Iowa EITC from seven percent of the federal EITC to 14 percent for tax year 2013 (and to 15 percent for tax years beginning on or after January 1, 2014). Recalling that the Iowa TTF Tax Credit claim is calculated based on the tax liability after subtracting Iowa EITC and all the other tax credits The doubled EITC should have eliminated tax liability for many EITC claimants, making them ineligible to claim the TTF Tax Credit.

For tax year 2013, Iowa EITC claimants who also claimed the TTF Tax Credit claimed a total of \$6.4 million of TTF and \$21.2 million of EITC (see Table 4). The average TTF Tax Credit claim was \$66 per return (or \$49 per individual). Overall, less than half (43.8%) of EITC claimants were also able to claim the TTF Tax Credit. Only 15.5 percent of EITC claimants with AGI lower than \$20,000 were able to claim the TTF Tax Credit.

V. Transfers for Taxpayers Trust Fund Tax Credit Trust Fund to General Fund

Taxpayers Trust Fund Tax Credit claims on tax year 2013 returns reduced General Fund revenues through lowering final return payments by taxpayers or higher refunds paid to taxpayers. The impact was offset through transfers out of the TTF Tax Credit Trust Fund financed with \$120 million from the Taxpayers Trust Fund. During the tax year 2013 processing season, IDR completed 12 transfers based on the dollar value of tax credits claims on returns processed during that month (see Table 5). For tax year 2013, the annual total certified number of taxpayers filing Iowa returns with TTF Tax Credit claims was 1,534,034 with a total amount \$88,258,180. These totals reflect some certification updates after the statistical return data used for the prior analysis was created.

TTF Tax Credit Trust Fund transfers made through the months of January and August, totaling \$84.6 million, were charged against the \$120 million fiscal year 2014 balance in the fund. The remaining \$35.5 million, including remaining funds and interest earned, was transferred back to the TTF Trust Fund at the end of the accrual period for fiscal year 2014. The additional \$3.7 million of tax credits claimed on returns processed in fiscal year 2015, incorporating the year-end adjustment, will be charged against funds available in the TTF Tax Credit Trust Fund for tax year 2014.

Table 1. Taxpayers Trust Fund Tax Credit Claims by Taxpayers and IDR Calculation on Electronic Returns

	Number of Returns	Distribution of Returns	Taxpayer Claims		IDR Calculation	
			Total Claims	Average Per Return	Total Claims	Average Per Return
Taxpayer claim matches with IDR calculation	1,320,626	94.9%	\$75,521,916		\$75,521,916	
Both are positive	980,180	70.4%	\$75,521,916	\$77	\$75,521,916	\$77
Both are zero	340,446	24.5%	\$0		\$0	
Taxpayer claim is different from IDR calculation	71,166	5.1%	\$1,804,475		\$4,020,860	
Both are positive						
IDR increased credit amount claimed	2,440	0.2%	\$126,637	\$52	\$190,743	\$78
IDR reduced credit amount claimed	27,962	2.0%	\$1,507,653	\$54	\$1,416,519	\$51
Taxpayer failed to claim and IDR calculated credit	36,905	2.6%	\$0		\$2,413,598	\$65
Taxpayer made a claim and IDR set to zero	3,859	0.3%	\$170,185	\$44	\$0	

Source: Iowa individual income tax returns through final review as of January 7, 2015.

Notes: Only electronically filed individual income returns (which accounted for 89 percent of all returns) are included in the above table (i.e., paper filers are excluded).

Table 2. Household Income Distribution of Iowa Taxpayers Trust Fund Tax Credit Claimants, Tax Year 2013

Adjusted Gross Income	TTF Tax Credit Claimants						Total (Non-Claimants Included)		
	Number of Returns	Distribution of Returns	Total Claims	Distribution of Claims	Number of Individual Claimants	Average Per Return	Average Per Individual Claimant	Number of Returns	Share With Claims
\$20,000 or less	158,422	13.7%	\$8,057,374	9.1%	167,717	\$51	\$48	490,845	32.3%
\$20,001 to 30,000	161,632	14.0%	\$9,674,589	11.0%	192,635	\$60	\$50	190,137	85.0%
\$30,001 to 40,000	154,027	13.3%	\$10,127,139	11.5%	200,107	\$66	\$51	159,903	96.3%
\$40,001 to 50,000	121,053	10.5%	\$8,708,003	9.9%	171,345	\$72	\$51	124,631	97.1%
\$50,001 to 60,000	96,201	8.3%	\$7,648,841	8.7%	149,763	\$80	\$51	98,639	97.5%
\$60,001 to 70,000	80,542	7.0%	\$6,949,769	7.9%	135,553	\$86	\$51	82,494	97.6%
\$70,001 to 80,000	68,446	5.9%	\$6,232,994	7.1%	121,084	\$91	\$51	70,026	97.7%
\$80,001 to 90,000	57,107	4.9%	\$5,377,447	6.1%	104,450	\$94	\$51	58,358	97.9%
\$90,001 to 100,000	47,087	4.1%	\$4,523,519	5.1%	87,853	\$96	\$51	48,125	97.8%
\$100,001 to 125,000	78,422	6.8%	\$7,603,968	8.6%	148,189	\$97	\$51	80,358	97.6%
\$125,001 to 150,000	41,170	3.6%	\$3,993,030	4.5%	78,267	\$97	\$51	42,483	96.9%
\$150,001 to 175,000	23,896	2.1%	\$2,300,432	2.6%	45,345	\$96	\$51	24,872	96.1%
\$175,001 to 200,000	14,726	1.3%	\$1,402,536	1.6%	27,842	\$95	\$50	15,424	95.5%
\$200,001 to 250,000	16,672	1.4%	\$1,576,021	1.8%	31,522	\$95	\$50	17,745	94.0%
\$250,001 to 500,000	23,165	2.0%	\$2,149,596	2.4%	43,569	\$93	\$49	25,419	91.1%
\$500,001 to 1,000,000	8,036	0.7%	\$739,614	0.8%	15,132	\$92	\$49	9,317	86.3%
\$1,000,001 or more	5,114	0.4%	\$457,444	0.5%	9,459	\$89	\$48	6,873	74.4%
Composite Returns	1,982	0.2%	\$743,789	0.8%	14,278	\$375	\$52	2,877	68.9%
Total	1,157,700	100.0%	\$88,266,105	100.0%	1,744,110	\$76	\$51	1,548,526	74.8%

Source: Iowa individual income tax returns through final review as of January 7, 2015.

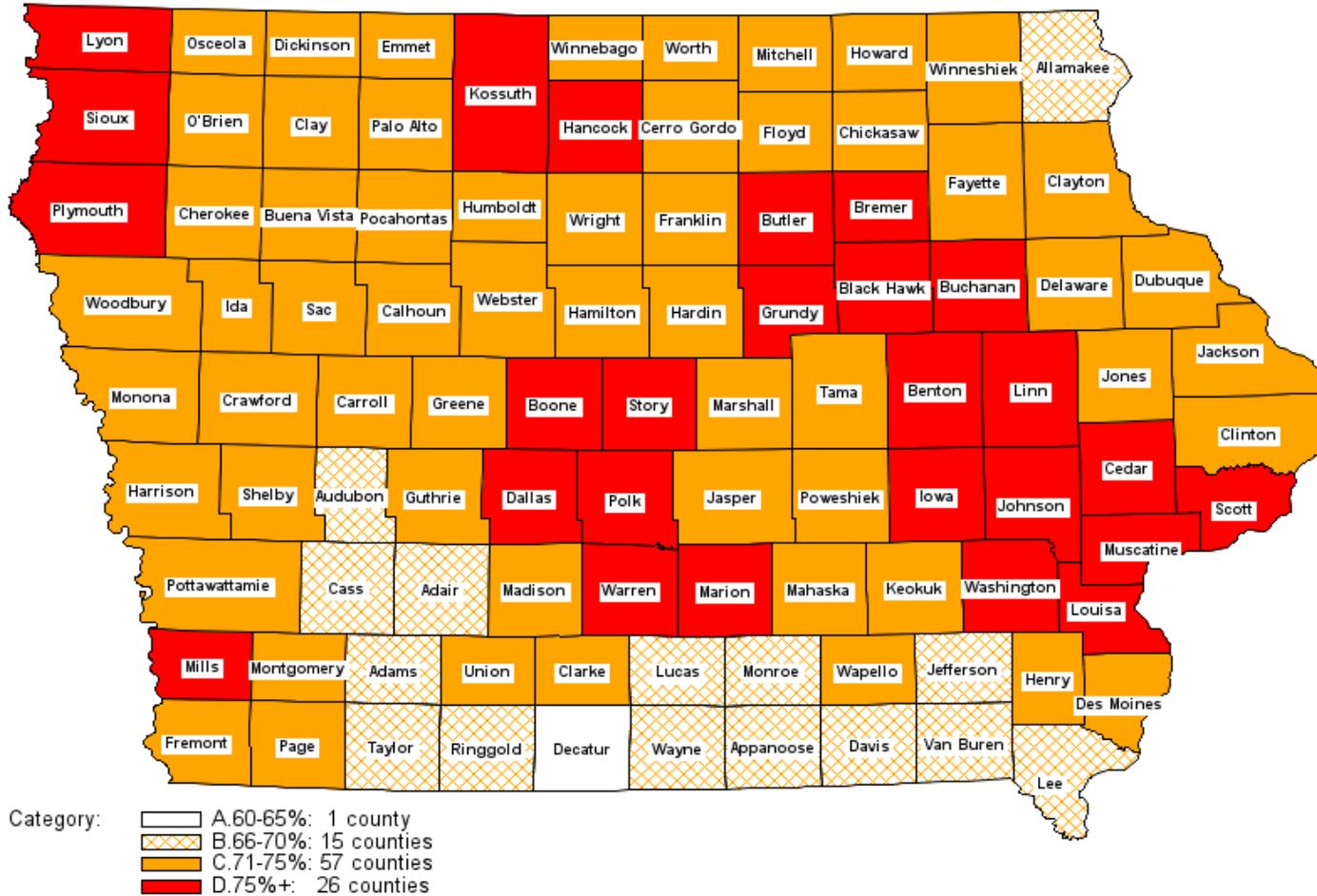
Table 3. Iowa Taxpayers Trust Fund Tax Credit Claimants Characteristics, Tax Year 2013

Characteristics	TTF Tax Credit Claimants						Total (Non-Claimants Included)		
	Number of Returns	Distribution of Returns	Total Claims	Distribution of Claims	Number of Individual Claimants	Average Per Return	Average Per Individual Claimant	Number of Returns	Share With Claims
Filing Status									
Single	476,064	41.2%	\$24,975,236	28.5%	476,064	\$52	\$52	683,912	69.6%
Married joint	139,635	12.1%	\$14,577,292	16.7%	279,270	\$104	\$52	232,185	60.1%
Married separate on combined returns	434,479	37.6%	\$42,366,177	48.4%	868,958	\$98	\$49	456,740	95.1%
Married separate on separate returns	15,947	1.4%	\$844,659	1.0%	15,947	\$53	\$53	18,669	85.4%
Head of household	89,028	7.7%	\$4,728,836	5.4%	89,028	\$53	\$53	153,344	58.1%
Qualifying widow(er)	565	0.0%	\$30,116	0.0%	565	\$53	\$53	799	70.7%
Marital Status									
Unmarried	565,657	48.9%	\$29,734,188	34.0%	565,657	\$53	\$53	838,055	67.5%
Married	590,061	51.1%	\$57,788,128	66.0%	1,164,175	\$98	\$50	707,594	83.4%
Claimed as a Dependent or not									
Not claimed as a dependent on someone else's return	1,106,264	95.7%	\$85,375,548	97.5%	1,680,376	\$77	\$51	1,437,945	76.9%
Claimed as a dependent on someone else's return	49,454	4.3%	\$2,146,768	2.5%	49,456	\$43	\$43	107,704	45.9%
Number of Dependents									
None	763,475	66.1%	\$53,124,505	60.7%	1,050,637	\$70	\$51	1,050,190	72.7%
One or over	392,243	33.9%	\$34,397,811	39.3%	679,195	\$88	\$51	495,459	79.2%
Age of Primary Taxpayer (Only Returns Having Age Information)									
19 or under	25,972	2.3%	\$1,140,125	1.3%	26,085	\$44	\$44	70,251	37.0%
20 - 29	236,933	20.6%	\$14,341,855	16.4%	278,557	\$61	\$51	325,254	72.8%
30 - 39	206,781	17.9%	\$16,230,366	18.6%	316,820	\$78	\$51	252,026	82.0%
40 - 49	208,125	18.1%	\$16,859,182	19.3%	329,896	\$81	\$51	244,140	85.2%
50 - 59	235,010	20.4%	\$19,389,435	22.2%	379,371	\$83	\$51	264,805	88.7%
60 - 69	153,594	13.3%	\$12,771,672	14.6%	258,137	\$83	\$49	202,843	75.7%
70 - 79	55,643	4.8%	\$4,415,473	5.1%	93,151	\$79	\$47	108,797	51.1%
80 or over	30,233	2.6%	\$2,113,343	2.4%	42,393	\$70	\$50	70,110	43.1%
Resident Status (Composite Returns Included) *									
Resident	1,045,908	90.3%	\$80,060,905	90.7%	1,558,599	\$77	\$51	1,388,475	75.3%
Nonresident	111,792	9.7%	\$8,205,200	9.3%	171,233	\$73	\$48	160,051	69.8%
County of Residence (Residents Only)									
Nonurban counties	523,411	45.3%	\$40,961,402	46.8%	797,289	\$78	\$51	710,018	73.7%
Urban counties	522,497	45.2%	\$39,099,503	44.7%	761,310	\$75	\$51	678,457	77.0%

Source: Iowa individual income tax returns through final review as of January 7, 2015.

Note: * Composite returns are excluded from all the categories except for resident status.

Figure 1. Share of Tax Returns with Iowa Taxpayers Trust Fund Tax Credit Claims by County, Tax Year 2013



Source: Iowa individual income tax returns through final review as of January 7, 2015.

Table 4. Iowa Taxpayers Trust Fund Tax Credit Claims by Iowa Earned Income Tax Credit Claimants, Tax Year 2013

Adjusted Gross Income	ETC Claimants Who Claimed TTF Tax Credit					ETC Claimants Who Did Not Claim TTF Tax Credit			Total ETC Claimants		
	Number of Returns	Total TTF	Number of Individual Claimants	Average TTF Per Return	Total ETC	Average ETC Per Return	Number of Returns	Total ETC	Average ETC Per Return	Number of Returns	Share with TTF Claims
\$20,000 or less	19,793	\$1,045,215	21,403	\$53	\$941,901	\$48	107,951	\$35,170,586	\$326	127,744	15.5%
\$20,001 to 30,000	30,410	\$1,778,626	37,464	\$58	\$10,999,095	\$362	15,577	\$8,831,503	\$567	45,987	66.1%
\$30,001 to 40,000	33,576	\$2,380,420	48,510	\$71	\$7,731,944	\$230	1,034	\$300,446	\$291	34,610	97.0%
\$40,001 to 50,000	12,771	\$1,160,905	23,716	\$91	\$1,535,924	\$120	149	\$12,673	\$85	13,486	94.7%
\$50,001 to 60,000	566	\$56,565	1,132	\$100	\$14,803	\$26	*	*	*	*	*
Total	97,116	\$6,421,731	132,225	\$66	\$21,223,667	\$219	124,711	\$44,315,208	\$355	221,827	43.8%

Source: Iowa individual income tax returns through final review as of January 7, 2015.

Note: * indicates a small group with fewer than five observations. To protect taxpayers' privacy, that small group is combined with the group with adjusted gross income between \$40,001 and \$50,000.

Table 5. Transfers from the Taxpayers Trust Fund Tax Credit Trust Fund to the General Fund, Tax Year 2013

Processing Dates Covered by Transfer	Count of Claims	Value of Claims
January 20 - February 24, 2014	347,621	\$19,796,705
February 25 - March 15, 2014	321,593	\$18,396,178
March 16 - March 24, 2014	91,454	\$5,231,641
March 25 - April 24, 2014	451,315	\$25,994,984
April 25 - May 24, 2014	149,999	\$8,659,113
May 25 - June 24, 2014	52,232	\$3,060,663
June 25 - July 24, 2014	34,126	\$1,996,609
July 25 - August 24, 2014	24,441	\$1,420,781
August 25 - September 24, 2014	23,279	\$1,399,722
September 25 - October 24, 2014	15,310	\$941,896
October 25 - November 24, 2014	19,667	\$1,187,519
November 25 - December 24, 2014	3,190	\$187,592
Total Transfers for Tax Credits Claimed	1,534,227	\$88,273,403
Year End Adjustment	193	\$15,223
Final Certification	1,534,034	\$88,258,180
Total Fiscal Year 2014	1,472,781	\$84,556,674
<i>Interest</i>		\$56,289
<i>Transfer back to Taxpayers Trust Fund</i>		\$35,499,615
Total Fiscal Year 2015	61,253	\$3,701,506

Source: Iowa Department of Revenue Accounting System