IOWA Department of REVENUE

Iowa's Tuition and Textbook Tax Credit

Tax Credits Program Evaluation Study

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Preface

During the 2005 Legislative Session the Iowa Department of Revenue received an appropriation to establish a program to track tax credit awards and claims. In addition, the Department was directed to perform periodic evaluations of tax credit programs. This is the first evaluation study completed for this tax credit.

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: Margaret Buckton of the Urban Education Network of Iowa, Dr. Brent Kreider of Iowa State University, Su McCurdy of the Iowa Department of Education, Jim McNulty of the Iowa Department of Revenue, Patti Schroeder of the Iowa Association of School Boards, Joyce Thomsen of the Iowa Department of Education, Dr. Bulent Uyar of the University of Northern Iowa, and Trish Wilger of Iowa Advocates for Choice in Education. (The assistance of an advisory panel implies no responsibility for the final product.)

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 Web site located at: http://www.state.ia.us/tax/taxlaw/creditstudy.html.

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Executive Summary

The Iowa Tuition and Textbook Tax Credit (TTC) was enacted to provide tax relief to taxpayers with students in grades kindergarten through 12 attending an accredited Iowa school. The nonrefundable credit is equal to 25 percent of the first $1,000 of eligible education expenses and has no carry forward.

The major findings of the study are these:

History of the Iowa Tuition and Textbook Tax Program

- Enacted in 1987, the TTC was five percent of the first $1,000 of eligible expenses per dependent for standard deduction filers. Taxpayers filing with itemized deductions were allowed to deduct up to $1,000 in eligible expenses. The credit or deduction was limited to households with federal adjusted gross income of less than $45,000, and eligible expenses were limited to tuition and fees for academic classes.

- In 1996, the itemized deduction was discontinued and the credit was made available to all taxpayers. The credit percentage was increased from five to ten percent of the first $1,000 of eligible expenses. The $45,000 household income limitation was eliminated.

- In 1998, the credit percentage was increased to 25 percent of the first $1,000 of eligible expenses. The definition of eligible expenses was expanded to include certain fees for extracurricular activities.

Tax Programs for Education Expenses in Other States

- Six states including Iowa have education tax programs for expenses for students in grades kindergarten through 12. Arizona, Illinois, and Iowa allow tax credits while Indiana allows an adjustment to income. Louisiana and Minnesota allow both adjustments to income and credits.

Court Challenges and Legal Rulings Involving Education Tax Programs

- In 1992, Iowa's TTC was challenged in court. The District Court upheld Iowa's TTC, ruling that the program did not violate the U.S. or Iowa Constitution.

- Illinois' and Minnesota's programs have also been challenged in court. Illinois' credit and Minnesota's adjustment to income were determined to be constitutional. Minnesota's original tax credit was struck down in 1973, but resurrected in 1998.

Tuition and Textbook Tax Credit Claimant Characteristics

- For tax year 2010, 121,003 households claimed $15.1 million in credits for 234,763 qualifying dependents. The average claim per household was $124.

- Of the $15.1 million claimed in tax year 2010, Iowa residents claimed $15.0 million of the credits because qualifying dependents must attend an accredited school in Iowa.

- Married taxpayers comprised 81.2 percent of all claimants. Approximately 90 percent of the claimants making 92.3 percent of claims were aged 31 to 55 as these are households most likely to have school-age children.

- TTC claimants are concentrated in the middle and upper income levels. Only 1.5 percent of the claimants earned less than $20,000 in adjusted gross income (AGI), while 27.3 of claimants had AGI between $20,000 and $50,000, and 71.2 percent of claimants had AGI of $50,000 or more.

- Average claims rise with AGI suggesting that higher-income taxpayers are more likely to send children to private schools (where expenses are much higher), relative to lower-income taxpayers.

Tuition and Textbook Tax Credit Claims by School District

- The largest three school districts in the state, in terms of enrollment (Des Moines, Cedar Rapids, and Davenport), had the largest number of claimants and claims. However, when other measures are analyzed (utilization, average credit, credit per pupil) much smaller school districts rank in the top ten.

- The credits claimed per pupil ranged from $3 in the Lenox School District to $112 in the Sioux Center School District.

- The average credit per household ranged from $41 in the Lenox School District to $332 in the Rock Valley School District.

- For 2010, utilization of the TTC (number of resident taxpayers making claims divided by the number of resident taxpayers with qualifying dependents) was only 35.1 percent.

- The utilization rate ranged from 8.1 percent in the Corning School District to 58.7 percent in the Western Dubuque School District.

Claims for Tuition and Textbook Tax Credit and Other “Family” Credits

- Iowa offers three other tax credits that target families: the Earned Income Tax Credit ($27.5 million claimed for tax year 2010), the Child and Dependent Care Tax Credit ($7.8 million claimed for tax year 2010), and the Early Childhood Development Tax Credit ($0.6 million claimed for tax year 2010).

- Two reasons explain why TTC filers are more concentrated at middle and higher income levels while the other three family credit filers are more concentrated at lower income levels. First, the other three family credits have income limitations. Second, the other three family credits are refundable, while the TTC is nonrefundable.

Impact of the Tuition and Textbook Tax Credit on Tax Liability

- For tax year 2010, 486 TTC claimants had their tax liability reduced to $0 by the TTC. These taxpayers claimed $88,845 in credits but were only able to use $45,232 since a number of taxpayers reported credits in excess of their pre-credit tax liability.

- Over 61 percent of these filers had income below $20,000.

- The TTC reduced Iowa tax liability by $15.0 million for an additional 120,517 taxpayers.

Taxpayers Eligible for the Tuition and Textbook Tax Credit Who Did Not Claim Credits

- Approximately 220,000 Iowa resident taxpayers reported qualifying dependents on their tax returns but did not claim a TTC.

- Sixteen percent of these taxpayers did not have any tax liability and therefore could not claim a credit.

- The remaining 84 percent of these taxpayers had positive pre-tax credit liability and qualifying dependents but did not claim a credit. The two possible reasons for this are:
    - Taxpayers did not have any eligible kindergarten-12th grade expenses. Iowa law prohibits schools from charging fees to families that qualify for the free lunch program.
    - Taxpayers lacked knowledge about the credit.

- Assuming similar eligible expenses as claiming households, based on the county of residence, income, and number of dependents in the non-claiming households, it is estimated those taxpayers could have claimed $21.4 million in credits, for a total of $36.5 million in claims for tax year 2010 under 100 percent utilization.

Analysis of Alternative Tax Proposals for the Tuition and Textbook Tax Credit

- Various changes to the TTC were estimated assuming no change in utilization. The results are summarized below in terms of the change in State revenue:
    - Raising the TTC percentage to 50 percent would have reduced tax year 2010 tax revenues by $14.6 million.
    - Reinstating the $45,000 household income limitation would have increased tax year 2010 tax revenues by $13.3 million.
    - Eliminating the TTC and raising the Dependent Exemption Credit from $40 to $60 would roughly be revenue neutral.

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I. Introduction

The Iowa Tuition and Textbook Tax Credit (TTC) was enacted for tax year 1987 in order to provide tax relief to parents or guardians of students in grades kindergarten through 12 for education expenses incurred while attending an accredited Iowa school. The nonrefundable credit is equal to 25 percent of the first $1,000 of eligible education expenses. Since the tax credit's enactment, it has undergone several changes, with the current credit rules becoming effective in tax year 1998.

This evaluation study provides background information about the TTC and similar credits in other states. This study also presents data on TTC claims. The claims data are evaluated by various demographic characteristics to determine who is claiming the credit and which groups of taxpayers are benefiting most from the credit. Claims are compared across school districts based on various measures of usage. Alternative proposals relevant to the Tuition and Textbook Tax Credit are also presented. The Iowa Department of Revenue (IDR) is not endorsing any of the alternative proposals; the purpose is to provide estimates of the fiscal impact if the proposals were enacted.

II. Education Tax Programs across the United States

A. The Iowa Tuition and Textbook Tax Credit

Beginning in 1987, taxpayers who itemized deductions on their State income tax returns could deduct up to $1,000 in eligible education expenses per dependent, while taxpayers who took the standard deduction could claim a nonrefundable tax credit equal to five percent of the first $1,000 in eligible expenses per dependent. Expenses must be incurred for dependents attending kindergarten through 12th grade at an Iowa school, accredited under Iowa Code section 256.11, not operated for profit, and adhering to the provisions of the U.S. Civil Rights Act of 1964.[1] Taxpayers with federal adjusted gross income of $45,000 or more could not claim either the itemized deduction or the tax credit. Married couples were required to combine their incomes in considering the $45,000 limitation, even if filing separately. In the case of divorced parents, only the spouse claiming the dependent credit could claim expenses for that dependent. Eligible education expenses included tuition and fees; however, expenses for extracurricular activities were not originally eligible for the deduction or the tax credit.

In 1992, Iowa's Tuition and Textbook Tax Credit program faced a legal challenge over whether the credit was constitutional. In the case of *Luthens v. Bair*, the plaintiffs argued that the credit program favored religious schools over public schools and discriminated against parents of children attending non-accredited schools. They further argued that the credit program allowed for government entanglement with religion because the law excludes expenses relating to "the teaching of religious tenants, doctrines or worship"; their argument was that IDR would have to monitor and inspect school activities to ensure that the law was not violated.

The District Court found that the credit did not favor one type of school over another as the credit was available to all parents incurring education expenses regardless of whether their children attended public, private sectarian, or private non-sectarian schools. Also, the benefits of the credit were viewed as being distributed to the parents themselves and not to the schools. In addition, the court ruled that the credit program did not violate the rights of parents as the credit provision encouraged students to attend accredited schools that meet state education

[1] These provisions are still applicable today.

requirements, which is a valid government interest. Finally, the court ruled that provisions in the Iowa Administrative Rules provided for a proration of the credit based on time spent in religious classes versus time spent in all classes, and no monitoring by IDR was necessary. Therefore, Iowa's TTC was upheld by the District Court.

In 1996, the itemized deduction option was discontinued and the Tuition and Textbook Tax Credit was made available to all taxpayers with eligible expenses. The tax credit percentage was increased from five percent to ten percent of the first $1,000 of eligible expenses per dependent and the $45,000 income restriction was eliminated.

Soon after the 1996 legislation became law, the Iowa Catholic Conference initiated a campaign to expand the tax credit even further. The Catholic Conference's proposal was to increase the maximum credit from $100 per dependent (10 percent of the first $1,000 of eligible expenditures) to $500 per dependent in grades kindergarten through 8 and $1,000 per dependent enrolled in high school. Their proposal would also have made the credit refundable.

The proposal to change the TTC advanced through the 1997 Iowa Legislature. However, concerns about the bill's cost resulted in the bill being held over into the 1998 legislative session. In 1998, legislation was passed and signed into law which increased the tax credit percentage from ten percent to 25 percent of the first $1,000 of eligible expenses. The definition of "textbooks and tuition" was expanded to include books and materials for extracurricular activities. However, the tax credit remained nonrefundable, meaning it can only be used to offset current tax year liability, and there is no carry-forward provision. The credit has not been altered since 1998.

Eligible expenses include costs for personnel, buildings, equipment, textbooks, and other expenses for subjects legally and commonly taught in Iowa's public elementary and secondary schools as well as books and materials for extracurricular activities, such as sporting events, music, drama or speech events, driver's education, or programs of a similar nature (see Table 1). Expenses relating to the teaching of religious doctrines, tenants, or worship, are not eligible, nor are expenses related to home schooling, tutoring, or schooling outside of an accredited school eligible for the credit.

B. Education Tax Programs in Other States

Six states offer taxpayers reimbursement for a portion of their kindergarten through 12th grade education expenses. Iowa, Arizona, and Illinois offer tax credits. Louisiana and Minnesota offer both a credit and an adjustment to income, and Indiana offers only an adjustment to income (see Table 2). In 1955, Minnesota was the first state to enact legislation for a tuition and textbook program, creating an adjustment to income for eligible expenses. Iowa first implemented its program in 1987. Arizona and Illinois created their programs during the late 1990's and Minnesota's present credit program was also implemented during the 1990's. Louisiana enacted its adjustment to income program in 2008 and Indiana implemented an adjustment program in 2011. Minnesota and Louisiana had earlier credit programs, but Louisiana's was suspended and Minnesota's was struck down by the courts. The states not only differ in their tax programs, but differ in what expenses are eligible and not eligible (see Table 3). For example, Arizona's credit program is heavily based on expenses for extracurricular activities while such fees are not allowed for Louisiana's income adjustment.

The tax programs for education expenses considered in this study do not include programs in which taxpayers may make contributions to school tuition organizations to assist students with funding their private education through scholarships; only programs in which direct tax relief to parents of students are considered. Furthermore, this study only covers programs relating to kindergarten through 12th grade and not preschool or post-secondary reimbursement programs.

Arizona allows a nonrefundable tax credit to all taxpayers who pay fees for extracurricular public school activities or character education programs. The character education program must include instruction in the definition and application of at least six of the following character traits: truthfulness, responsibility, compassion, diligence, sincerity, trustworthiness, respect, attentiveness, obedience, orderliness, forgiveness, and virtue. The maximum credit is $200 for single and head-of-household filers and $400 for married taxpayers. Married filing separate taxpayers may each claim half of the credit that would have been allowed on a joint return.

Illinois offers a nonrefundable credit to all taxpayers equal to 25 percent of qualifying tuition, books, and lab fees. Taxpayers may not claim a credit on the first $250 of eligible expenses and the maximum credit is $500 per household.

Indiana offers an adjustment to income of $1,000 per dependent who is enrolled in a private school or is home schooled. Students must be enrolled for at least 180 days during the school year in order for their parents to claim the credit.

Louisiana offers a tax credit as well as three types of adjustments to income:

(1) the Elementary and Secondary School Tuition Deduction, which pertains to nonpublic elementary or secondary schools and public elementary or secondary laboratory schools that are operated by a college or a university;

(2) The Educational Expenses for Home-Schooled Children Deduction; and

(3) The Educational Expenses for a Quality Public Education Adjustment, which applies to public schools as well as approved charter schools.

The adjustments apply to spending on tuition, fees, uniforms, textbooks, and school supplies required by the school. The Elementary and Secondary School Tuition Deduction allows 100% of eligible expenses to be deducted while the other two adjustments are restricted to 50% of eligible expenses. The maximum adjustment is $5,000 per student. Louisiana also allows a flat $25 nonrefundable credit for each dependent claimed on the tax return that is enrolled in kindergarten through 12th grade.

Minnesota allows an adjustment to income up to $1,625 for eligible elementary expenses and up to $2,500 for eligible secondary expenses. Minnesota also allows a refundable tax credit equal to 75 percent of eligible expenses. The maximum credit is $1,000 per student or $2,000 per family. The credit is phased out beginning at $33,500 of income and completely phased out at $37,500 for families with one or two qualifying children. The phase-out end point is extended by $2,000 for each additional qualifying child claimed above two. The income measure used to determine eligibility for the credit is a broad income measure that includes nontaxable interest and transfer payments. Taxpayers with education expenses and income below the phase-out end point are to first compute the tax credit. Any eligible expenses not used for the credit may be used for the adjustment. In addition, private school tuition and tuition paid for college or summer courses to satisfy high school requirements are not eligible for the credit but may be used for the adjustment. A credit and an adjustment may not be claimed for the same expenses.

III. Court Challenges and Legal Rulings Involving Education Tax Programs

Numerous legal challenges have been made against education tax programs, including Iowa's Tuition and Textbook Tax Credit program. These challenges claim the education tax programs violate the Establishment Clause of the First Amendment of the U.S. Constitution. The Establishment Clause states that “Congress shall make no law respecting an establishment of religion” and is generally interpreted to prohibit the establishment of a national religion or favoring one religion over another. Education programs have also been challenged on the basis of the Equal Protection Clause of the Fourteenth Amendment to the U.S. Constitution. The Equal Protection Clause states “…No state…shall deny any person within its jurisdiction the equal protection of the laws”.

Blaine Amendments, which prohibit the use of state funds for sectarian schools, and compelled support clauses, which prohibit a state from requiring private citizens to attend or support a church or ministry without their consent, in state constitutions have also been used to challenge the legality of education tax programs. Blaine Amendments are named after James G. Blaine, who proposed such an amendment to the U.S. Constitution as Speaker of the House in 1875. Although Blaine’s amendment failed in the U.S. Congress, these amendments have been successfully passed at the state level. Currently 37 states have Blaine Amendments in their state constitutions. There are 29 states that have compelled support clauses. Nineteen states have both Blaine Amendments and compelled support clauses, and three states (Louisiana, Maine, and North Carolina) have neither (O’Neill, 2003).

The Iowa Constitution contains both a Blaine Amendment and a compelled support clause. Article I Section 3 states that “The general assembly shall make no law respecting an establishment of religion, or prohibiting the free exercise thereof; nor shall any person be compelled to attend any place of worship, pay tithes, taxes, or other rates for building or repairing places of worship, or the maintenance of any minister, or ministry.”

In 1971, the U.S. Supreme Court established what is known as the Lemon Test (*Lemon v. Kurtzman*) to determine if a government practice violated the Establishment Clause of the First Amendment. In *Lemon v. Kurtzman,* the court stated that “First, the statute must have a secular legislative purpose (non-religious or non-spiritual purpose); second, its principle or primary effect must be one that neither advances nor inhibits religion…finally, the statute must not foster ‘an excessive government entanglement with religion’.”[2]

A landmark case relating to the Establishment Clause and the Lemon Test was *Mueller v. Allen* (1983) in which the legality of the Minnesota education adjustment to taxable income was challenged. In Mueller, the U.S. Supreme Court concluded that all three parts of the Lemon Test were satisfied. The court ruled that the adjustment did not violate the Establishment Clause because Minnesota’s law allowed aid to parochial schools as a result of decisions being made by parents and not decisions being made by the State of Minnesota. Another important precedent that came out of this case was that the adjustment was considered neutral with respect to religion because the adjustment was available for expenses of all parents, including those of children attending public schools and non-sectarian private schools.

As mentioned earlier, in 1992 Iowa’s Tuition and Textbook Tax Credit was challenged in U.S. District Court in the case of *Luthens v. Bair*. The court, in its ruling, started out by stating that the Mueller case involving the Minnesota adjustment met all three conditions of the Lemon Test and would be the reference point for the Iowa ruling. In the Mueller case, the court ruled that an educated population is essential to the political and economic health of any community and a state’s efforts to assist parents with the cost of education clearly serves the purpose of ensuring

[2] Luthens v. Bair, 788 F. Supp. 1032 (S.D. Iowa) 1992, p. 4.

an educated population. Therefore Iowa's effort to support an educated population with the TTC was also secular in nature. In addition, there is a strong public interest in ensuring that private schools are financially healthy because they provide an alternative to publicly-funded primary and secondary education. In the Iowa case, the court ruled that the same secular legislative purpose that was present in Minnesota's statute was also present in Iowa's tax provision; therefore, Iowa's tax credit passed the first part of the Lemon Test.

The plaintiffs argued that the Iowa tax credit program promoted private sectarian schools and therefore violated the second part of the Lemon Test (the statute must neither promote nor inhibit religion). The plaintiffs also argued that the Iowa credit violated the second part of the Lemon Test on the grounds that the benefits were only available to parents with children attending accredited schools. The plaintiffs additionally argued that the Mueller case over the Minnesota tax adjustment was not relevant because Iowa's aid was in the form of a credit. The plaintiffs relied on a New York case *(Committee for Public Education v. Nyquist,* 1973*)* over a tuition reimbursement program that was struck down in U.S. District Court. The New York program provided for direct money grants to nonpublic schools and determined adjustment amounts using adjusted gross income and number of dependents. The court ruled that the New York program promoted religion by targeting only nonpublic schools, thus violating the second part of the Lemon Test. Also in Nyquist, there was debate over whether or not the New York program was an adjustment, modification, or a credit.

In the Iowa case, the District Court cited precedent out of the Mueller case that the credit was available to all parents incurring education expenses, whether their children attended public, sectarian, or non-sectarian private schools, thus it did not favor any religion. In addition, the court held that the benefit from the credit went directly to the parents of school children and not to the schools themselves. As far as the Iowa credit violating the Lemon Test because children had to attend accredited schools, the court ruled that the Iowa statute does not discriminate on the basis of religion or violate First Amendment rights of parents with children attending non-accredited schools. Instead the credit provision encourages attendance at an accredited school which meets the State educational requirements. The court ruled that this is a valid government and public interest. Finally, with respect to New York's Nyquist case, the court ruled that the Iowa credit was based on the actual amount of expenditures incurred (similar to the Minnesota provision), unlike New York's adjustment. Furthermore, the court ruled that whether the aid was an adjustment or a credit did not matter.

The plaintiffs finally argued that the Iowa credit also violated the third part of the Lemon Test (government entanglement with religion). The plaintiffs argued that because the credit excludes expenses that relate to "the teaching of religious tenants, doctrines or worship" the Department of Revenue would have to inspect and monitor activities to make sure that credit claims are not based on expenditures for religious purposes. The court did not agree with this argument, stating that IDR rules provide for a proration based on the time spent in religious classes compared to time spent in other classes taught in Iowa. No active monitoring would be required.

Therefore, the District Court concluded that Iowa's statutes and rules concerning the TTC did not violate the Establishment Clause of the First Amendment, the Equal Protection Clause of the Fourteenth Amendment, or the Blaine Amendment or compelled support clause of the Iowa Constitution.

In addition to the Minnesota adjustment and Iowa challenges, the original Minnesota tax credit was challenged in 1972. Minnesota's credit was a nonrefundable credit for qualifying tuition, fees, and textbooks for parents of children attending nonpublic schools. Originally, the

Minnesota Supreme Court held the credit to be constitutional. However, the Nyquist case, in which the New York tuition reimbursement program for nonpublic schools was struck down, was decided in 1973. The Minnesota credit challenge was on appeal at the time, and the Minnesota Supreme Court felt obligated to consider the findings in the Nyquist case. The court felt that Nyquist changed the issue of the Lemon Test, by stating that the consideration was no longer the "primary effect" of promoting religion but "any effect" of promoting religion. Based on the findings from Nyquist, the Minnesota Supreme Court found the state's original education tax credit unconstitutional.

Illinois' tax credit program was challenged in 2001 in the case of *Griffith v. Bower*. Illinois has both a Blaine Amendment and a compelled support clause in its constitution, and six decisions were rendered in two different cases before the Illinois credit was found to be constitutional. As with the Minnesota and Iowa decisions based on the Mueller case, the courts ruled that the Illinois credit was permissible on the grounds that it was available to parents of both public and private school students.

IV. Literature Review

The purpose of the Iowa Tuition and Textbook Tax Credit is to assist parents with education expenses of school-age children attending an accredited Iowa school, both public and nonpublic. However, educators and scholars have raised issues with such education tax programs. There has been debate as to whether tax credits for parents are the fairest and/or most efficient method to promote educational choice. Proponents of tuition tax credits or adjustments argue that the help with education costs will expand school options for families at all income levels. They argue that tax credits assist with tuition costs and allow poor students opportunities to attend private schools, which they may not be able to attend otherwise. They further argue that increased choices will result in competition among schools, which will result in improved school quality for both public and private schools. Proponents also argue that credits allow parents to take greater control of money spent for education, leading to parents taking a greater interest in their children's education.

Opponents of education tax benefits argue that lower-income families do not have all of the educational opportunities that higher-income families will have and that disparity could be worsened by the education tax program. According to this argument, the tax subsidies will encourage more affluent families to withdraw their children from public schools, leaving the public schools with less public support as well as affect the social and economic diversity of the public schools.

Some of the literature suggests that education tax credits are more beneficial to higher-income families in comparison to lower-income families and do not necessarily provide more opportunities for lower-income families (South Carolina PTA and the Alliance for Quality Education). First, education expenses are paid up front and partially reimbursed at a later date through the tax code. Lower-income families may not be able to meet the cash flow of paying first and receiving a later reimbursement. Therefore, these families will still be less able to make the education expenditures. Second, if the credit is nonrefundable, like Iowa's TTC, the credit claimed cannot exceed the taxpayer's tax liability. Lower-income families may have little or no tax liability against which to apply such a credit for education expenses. Third, Darling-Hammond et al. (1985) argued that "knowledge and use of the deduction are strongly related to parent's income", inferring that lower-income households are less likely to know about the reimbursement programs. Fourth, tax credits reduce tax revenues and may limit opportunities for other redistributive tax policy which could benefit lower-income households. Fifth, tax credits rarely cover the entire cost of any education expense. For example, for each Iowa student, the credit is limited to 25 percent of the first $1,000 of eligible expenses. Finally, tax credits may result in private schools increasing their tuition, because the government is picking up a portion of the cost. This would offset any assistance from the credit for students in lower-income families to attend private school.

Actual tax data from Minnesota's adjustment to income and Illinois' tax credit show that their reimbursements are heavily utilized at middle and upper income levels. For Minnesota's adjustment to income, 89 percent of the claimants and 93 percent of the claims were made by taxpayers with AGI over $40,000 in 2002. In Illinois, 80 percent of the credit claims were made by taxpayers with incomes of $40,000 and over (Huerta and d'Entremont, 2007).

As suggested, proponents of these education reimbursement programs have argued that these programs will increase competition between public and private schools and lead to improved quality for both types of schools. Figlio and Hart (2011) analyzed whether increased competition from private schools improved performance at public schools by examining Florida's Tax Credit (FTC) Scholarship Program aimed at low income families.[3] Although the FTC is quite different from the Iowa TTC, it may be viewed as a mechanism to expand school choice. Figlio and Hart found that improvement in public school test scores occurred after simply the announcement of the expansion of the program before any students actually used the scholarships. Thus the improvement in the public school test scores resulted from the mere threat of increased competition. Figlio and Hart did warn that their results might not apply to other states. They noted that 90 percent of Florida's students live in the 20 largest metropolitan areas, thus the private and public schools tended to be in close proximity. States with more rural populations may not have the same degree of competition that was found in Florida.

In another example, two large charter schools opened in the Lansing, Michigan, area in the 1996-1997 school year, and 745 students transferred to the new schools (Moody and Ellig, 1999). The Lansing School District responded by adding a sixth grade to one of its elementary schools with new and improved offerings. Therefore the choice of the 745 students who left the Lansing School District also benefitted the 17,000 students who remained.

Darling-Hammond, et al. (1985) attempted to measure the extent to which education tax programs led to parents switching their children from public to private schools. They conducted interviews with 98 nonpublic school administrators and 476 parents of both public and private school children in Minnesota. In their interviews, they found that the adjustment to income was not a large factor in determining parental school choice.[4] Private school administrators believe the adjustment was not a significant factor in parents' decisions to send their children to private schools. When private school parents were interviewed 38 percent cited school quality and 27 percent were most influenced by religious instruction. Only ten percent of private school parents who had used the adjustment thought the tax benefit was important in their decision making. However, 98 percent of these parents said they still would have sent their children to private school even in the absence of the adjustment. Among public school parents who had considered private schools, only 14 percent cited cost as a reason for not choosing private

[3] The Florida program provides corporations with dollar-for-dollar tax credits for up to 75 percent of their tax liability. The scholarships are quite large; they cover 90 percent of tuition and fees at a typical religious elementary school and 67 percent of tuition and fees at a typical religious high school.
[4] Under Minnesota law, tuition expenses are not eligible for the credit and must be applied to the adjustment.

schools. Among parents whose children transferred from private schools to public schools, only 17 percent said that cost was a factor in their decisions.

Public school parents were asked if they would switch their children to a private school at different adjustment levels. Under adjustment levels at the time of the survey, (up to $600 per elementary school child and up to $1,000 per secondary school child), 23 percent reported they would be likely to transfer.[5] If the adjustment were 70 percent higher than current levels, 30 percent of parents said they would be likely to transfer. More than 50 percent said they would be very unlikely to transfer at either adjustment level. The authors found that the parents who were most likely to switch from public schools to private schools were those who: (1) were dissatisfied with their children's current school, (2) considered the location of the school important, and (3) least understood the adjustment prior to the survey.

The authors asked private school parents if they would transfer their children to another school if tuition costs were raised by specific amounts ($200, $500, and $1,000). The probability of transfer depended on the level of tuition increase. For the lower increases, only 13 percent would consider transferring their children to another school. At the $1,000 level, nearly 60 percent of parents said they would consider switching. However, half of the parents who said they would consider transferring their children to another school said they would choose other private schools, not public schools.

Data from the Minnesota Department of Revenue supports Darling-Hammond's et al. claims that the amount of the adjustment was not an important factor in parents' choice to send their children to public or private school (Huerta and d'Entremont, 2007). The Minnesota tax adjustment was increased in 1976, 1984, and 1997. Between 1975 and 1978, there was a one percent *decrease* in private school enrollment following a $300 increase in the Minnesota adjustment to income. Between 1983 and 1987, there was a two percent *decrease* in private school enrollment in Minnesota. In 1997 after the adjustment amount was nearly tripled, private school enrollment did increase, but only by 1,710 students, or less than three percent of total private school enrollment.

V. Analysis of Iowa Tuition and Textbook Tax Credit Claims

A. Historical Tuition and Textbook Tax Credit Claims

Historical data shows large increases in both the number of TTC claimed and the amount of credits claimed in 1996 and 1998 (see Figures 1 and 2).[6] The increases in the credit rate that occurred in both 1996 and 1998, the elimination of the income restriction in 1996, and the expansion of the credit's eligible expenses to include extracurricular activities in 1998, most likely contributed to the increase in the number and amount of claims in those tax years.

One common argument against education tax credits from public school supporters is that increasing the benefits or eligibility will lead to greater private school enrollment because private school will become more affordable. As the number and amount of TTC claims have increased over time, private school enrollment has declined from 45,865 students in 1991 to 33,804 in

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[5] Most likely, these parents prior lacked knowledge of the deduction because they indicated they were willing to transfer their children to private schools, but had not done so.

[6] Claims information for the Tuition and Textbook Deduction that was in existence from 1987 through 1995 is not available as the Department did not compile this data. The number of credits claimed for tax years prior to 1991 is also unavailable.

2010, or -26.3 percent (see Figure 3). In fact private school enrollment declined in every single year since 1991, except 1993, for an average annual decline of 1.6 percent. Public school enrollment increased by 2.9 percent between 1991 and 1996, and then started to decline after 1996 at an average annual rate of -0.5 percent. Thus, in Iowa, the TTC does not appear to have raised private school enrollment. School enrollment trends were probably driven by the school-age population dropping over that time. This pattern is consistent with findings in Minnesota that were mentioned in Section IV.

B. Tuition and Textbook Tax Credit Claimant Characteristics

For tax year 2010, the most recent complete tax year, 121,003 households claimed a total of \$15.1 million in TTC.[7] On the Iowa individual income tax return, taxpayers can claim dependents of all ages. However, the TTC is limited to eligible expenses incurred for dependents in kindergarten through 12th grade. To determine the number of dependents in grades K-12, Iowa income tax returns were matched with federal tax return information containing the ages of up to four dependents. Of the total number of dependents claimed on returns with a TTC claim, 227,564 dependents (85.7%) were identified as elementary and secondary school age, 5 to 21, referred to as qualifying dependents (see Table 4).[8] Ten percent of dependents were between ages zero and four, 1.3 percent of dependents were between ages 22 and 24, and 0.8 percent of dependents were age 25 or older. No federal age data could be matched to 5,570 dependents. Because federal tax information only captures the ages of up to four dependents, it was assumed that any dependents in a household beyond four were qualifying. Also, dependents with no age data matches were assumed to be between ages 5 to 21. When these assumptions are implemented, 234,763 dependents are considered qualifying.

The largest number of households claiming TTC reported two qualifying dependents (see Table 5). These households accounted for the largest share of dependents with 43.1 percent and the largest dollar share of credits claimed with 40.9 percent. Households with three dependents were the second largest group with 25.7 percent of dependents and 24.9 percent of amounts claimed. Households with only one dependent had 18.6 percent of dependents, and 22.0 percent of TTC claims. Not surprisingly, as the number of qualifying dependents increases, the average claim per household increases, although the average claim per dependent was highest for households with one dependent. Overall, the average household TTC claim was \$124.

There were 8,686 households, or 7.2 percent of all claimants who claimed the maximum credit of \$250 times the number of qualifying dependents. Because these taxpayers are claiming \$1,000 in expenses for each dependent, it is likely that they are paying tuition to a private school. Although tax return data does not have information on the type of school attended for each dependent, it can provide a rough estimate of the numbers of claimants whose children attend private school. The estimated 7.2 percent of claimants assumed to be attending private school matches with the 7.2 percent of all Iowa students who attended private schools during the 2010-2011 school year (Iowa Department of Education).

As would be expected, the credit is mainly claimed by Iowa residents, based on the Iowa county of residence reported on the tax return; 120,543 residents claimed \$15.0 million in credits (see Table 6). Nonresidents may claim the Tuition and Textbook Tax Credit as long as their children are attending an accredited school in Iowa. There were 460 nonresidents who claimed a total of

[7] Because the Tuition and Textbook Tax Credit can only reduce tax liability, 260 claims reported by taxpayers with no tax liability were not considered.
[8] Disabled children can attend secondary school through age 21.

$90,214 in TTC. These credits claimed by nonresidents were for education expenses for 977 dependents. Among the nonresident claims, 182 claims were made by taxpayers who moved out of Iowa during 2010. The remaining 278 returns with nonresident mailing addresses are broken down by state as follows: Illinois (15), Minnesota (28), Missouri (12), Nebraska (80), South Dakota (51), and Wisconsin (17). Eighteen returns reported no Iowa county but had Iowa listed as the state mailing address. It is possible that a county or mailing address field was entered incorrectly. Fifty-seven had addresses from states not contiguous to Iowa; IDR will review these claims.

In tax year 2010, married households filing separately on a combined return made up the largest share of the number of TTC claims (69.0%), followed by head of households (17.3%), married joint (11.6%) and single filers (1.4%) (see Figure 4). Married separate filers filing on separate returns and qualifying widow(er)s made up less than one percent of all claimants (0.6% and 0.1%). Married taxpayers (married joint, married filing separately on combined returns, and married filing separate returns) comprised 81.2 percent of all claimants while unmarried taxpayers made up 18.8 percent of all returns with a TTC claim. As expected, when considering the amount of TTC claimed, married taxpayers filing separately on combined returns also had the largest share of dollar claims (71.6%) (see Figure 5). However, married joint filers had the second largest share of credit claims (15.4%), followed by head of households (11.5%) and single filers (1.0%). Married separate filers filing on separate returns and qualifying widow(er)s claimed less than one percent of dollar claims (0.4% and 0.1%).

Age data is also available for the taxpayers. Ninety percent of taxpayers claiming TTC were between the ages of 31 and 55. Those households claimed 92.3 percent of all TTC dollars claimed in 2010 (see Table 7).[9] The group with the largest number and amount of claims are those taxpayers aged between 41 and 45; these households account for 24.4 percent of the number of claims and 27.9 percent of the amount of TTC claimed. This is not surprising as these are ages when a large number of taxpayers are likely to have school-age children.

Iowa taxpayers claiming the TTC are concentrated in middle and upper income levels, with households reporting less than $20,000 in adjusted gross income (AGI) comprising only 1.5 percent of TTC households and 0.7 percent of the dollars being claimed (see Table 8). Claimants with AGI between $20,000 and $49,999 comprised 27.3 percent of the total number of claims and 20.1 percent of the total dollars claimed. Households with AGI above $50,000 comprised 71.2 percent of the total number of claims and 79.2 percent of the total amount claimed. The average TTC claim rises from $57 to $355 as income rises. Because average TTC claims rise as AGI rises, the shares of dollars claimed exceeds the shares of claimants at the higher income levels (above $90,000). Households with income above $150,000 report 7.9 percent of the number of claims, but 14.3 percent of the total amount of TTC claimed. As income rises, taxpayers are able to spend more on their children's education. It is reasonable to speculate that higher-income taxpayers are more likely to send children to private school, raising eligible expenses. Total eligible expenses for which TTC were claimed totaled over $60 million, but this is a lower bound of total expenses for these households as 7.2 percent of households claimed the maximum credit, and thus could have incurred significantly higher expenses.

[9] Married taxpayers are grouped by the age of the primary spouse.

C. Tuition and Textbook Tax Credit Claims by School District

Across the state, only 35.1 percent of taxpayers identified with qualifying dependents claimed a Tuition and Textbook Tax Credit in tax year 2010 (see Table 8). The utilization rate is defined as the ratio of households claiming the credit compared to all households with dependents ages 5 and 21. The utilization rate in this study is limited to resident taxpayers, because dependents must attend an Iowa accredited school in order for a taxpayer to claim the credit. In analyzing the utilization rate by AGI, the highest rate occurred between $80,000 and $125,000 (over 48.0% for this income range). The lowest rates were found in the less than $20,000 group (3.3%) and the $20,000 to $30,000 income group (23.9%).

Comparing utilization rates across the 359 school districts in existence for the 2010-2011 school year reveals significant variation. Iowa taxpayers must provide their school district of residence on their individual income tax return. Although it is possible that taxpayers may reside in one school district and their children attend school in a different district, for this analysis the taxpayer is considered in the school district of residence. The utilization rate ranges from 8.1 percent in the Corning School District to 58.7 percent in the Western Dubuque School District (see Figure 6). Over one-half of households with qualifying dependents claimed the credit in 10 school districts while less than one-fifth made claims in 21 school districts. The highest utilization rates appear to coincide with the location of private schools.

The top ten school districts with the highest total of TTC dollars claimed tended to be the school districts with the most eligible households (see Table 9).[10] Total TTC claims among school districts ranged from $599 in the Clearfield School District to $893,276 in the Des Moines School District. In tax year 2010, the Des Moines, Cedar Rapids, and Davenport school districts were the three largest school districts in the state based on the number of eligible households, ranked as the top three districts by dollars of TTC claims, and were the top three districts by count of claims. Five of the other seven districts with the highest amount of claims were also in the top ten largest school districts based on eligible households. However, the school districts with the ninth and tenth largest amount of TTC claims, Western Dubuque and Linn-Mar, were ranked 27th and 11th, respectively, in terms of the number of eligible households in the district. Despite these districts claiming the highest amounts of credits, only half of the top ten had utilization rates above the statewide average of 35.1 percent.

Ranking the school districts by credit claims per pupil results in a much different group of top school districts. Credits per pupil ranged from $3 in the Lenox School District to $112 in the Sioux Center School District (see Table 10).[11] The top ten school districts by credit per pupil included some of the smaller school districts in Iowa including the Lineville-Clio School District, the smallest school district in Iowa with only 19 students, and the Corwith-Wesley School District which only has 89 enrolled students. All but two of these top ten had utilization rates above the average.

School districts were ranked by average TTC credit claim for households making claims. The average credit claimed in 2010 ranged from $41 in the Lenox School District to $332 in the Rock Valley School District (see Table 11).[12] The ten school districts with the highest average household claim ranked from 27th in the number of eligible households to 289th. Nearly all of

[10] An eligible household is a household filing an Iowa income tax return in tax year 2010 with at least one qualifying dependent.
[11] Pupils include public school students as well as students attending private schools located in the public school district.
[12] The Rock Valley public school district does not charge a student fee; therefore, this high average credit is likely being driven by expenses incurred for students attending private schools.

these school districts had above average utilization with only West Sioux, Sheldon, and North Kossuth school districts below the statewide average. Five of the top ten school districts are located in Sioux County in northwest Iowa and two others are located in Plymouth County and O'Brien County which are contiguous to Sioux County. There are thirteen private school buildings in Sioux County, six private school buildings in Plymouth County, and four private school buildings in O'Brien County.

The Western Dubuque School District had the highest utilization rate in the state with nearly 60 percent of households with qualifying dependents making TTC claims (see Table 12). All of the top ten school districts by utilization had utilization rates over 50 percent. Western Dubuque was the largest school district in the top ten with 2,568 eligible households and Remsen-Union, which ranked 2nd by utilization rate, was the smallest district with only 362 households with qualifying dependents.

D. Claims for Tuition and Textbook Tax Credit and Other "Family" Credits

The Tuition and Textbook Tax Credit is one of four income tax credits that target families with children. The first of these tax credits is the refundable Earned Income Tax Credit (EITC) which is equal to seven percent of the federal Earned Income Tax Credit. Second is the refundable Child and Dependent Care Tax Credit (CDC) which is equal to 75 percent to 30 percent of the federal Child and Dependent Care Credit for households with AGI below $45,000. Third is the Early Childhood Development Tax Credit (ECD), a refundable credit equal to 25 percent of qualified early childhood development expenses for dependents age three to five. Taxpayers receiving this credit must have AGI less than $45,000. Eligible expenses for the credit include preschool expenses, books, instructional materials, lesson plans and curricula, and child development and educational activities outside the home. The CDC and ECD Tax Credits are mutually exclusive of each other and cannot both be claimed in the same tax year by a taxpayer.

In 2010, the 121,003 TTC claims were second only to the 206,156 EITC claims among the family credits (see Table 13).[13] Only 27,802 households claimed CDC Tax Credits and only 3,889 households claimed the ECD Tax Credit. Distributional analysis of the credit shows that the TTC is heavily claimed by middle and upper income households, with over 79 percent of the dollars being claimed by households with more than $50,000 in AGI. While the other three family credits are claimed predominantly by households with lower incomes due to the eligibility limits of the other credits and the nonrefundability of the TTC.

As noted above, the CDC and the ECD Tax Credits are limited to households with income under $45,000, while the maximum household income at which an EITC could be claimed was $48,362 for tax year 2010.[14] Because the TTC is nonrefundable, lower income taxpayers with eligible education expenses but no tax liability against which to apply that credit could not claim it, while the other three credits are refundable so any credit in excess of tax liability could be claimed as a refund by the taxpayer. As a result, TTC claims by households with lower incomes make up a lower share of total credits compared to the other three family credits (see Table 13). Households with income under $20,000 comprise only 1.5 percent of the number of TTC claimants and those households claim only 0.9 percent of the total amount of TTC claimed. EITC claimants with income under $20,000 represent 60.0 percent of the number of households claiming EITC and 61.2 percent of the total amount of EITC dollars claimed. Households with

[13] The EITC can be claimed by qualifying households with no children; however, these households are relatively few in number and comprise a small amount of the claims. These households are included in the 206,156 figure.
[14] CCH: Master Tax Guide 2010, sect. 1322

income under $20,000 comprised 29.2 percent of the number CDC claims and 36.1 percent of total CDC dollars claimed, while households with less than $20,000 in AGI accounted for 33.3 percent of the number of ECD claims and 31.3 percent of the amount of ECD dollars claimed.

E. Impact of the Tuition and Textbook Tax Credit on Tax Liability

In tax year 2010, Iowa income tax liability was reduced by nearly $15.1 million because of the Tuition and Textbook Tax Credit. It is possible that the nonrefundable tax credit eliminated some taxpayers' Iowa tax liability. In tax year 2010, 486 of the 121,003 TTC claimants' Iowa pre-credit tax liability was reduced to zero by the TTC (see Table 14).[15] Over 61 percent of these taxpayers had AGI below $20,000. These 486 taxpayers reported pre-credit tax liability of $45,232 and Tuition and Textbook Tax Credit claims of $88,845. Because the credits are nonrefundable, the $43,613 in claims that exceeded tax liability could not be used and this amount of credit is not included in the $15.1 million of claims presented in other tables.

The remaining 120,517 households had Iowa income tax liability reduced by $15.0 million. In addition, any taxpayers who reside in a school district that levies a school district surtax would have experienced a reduction in that liability as well.[16] The lower surtax revenue over all school districts for tax year 2010 is estimated to be $560,000.

F. Taxpayers Eligible for the Tuition and Textbook Tax Credit Who Did Not Claim Credits

For tax year 2010, utilization of the Tuition and Textbook Tax Credit was only 35.1 percent suggesting over 220,000 Iowa resident households filed returns reporting dependents aged 5 through 21, but did not claim a TTC. Of these, 34,416 households had qualifying dependents but no pre-credit tax liability, which likely explains why any of these households with eligible expenses did not claim the credit (see Table 15).[17] Over 96 percent of those taxpayers reported AGI below $20,000. However, there were 185,597 households with qualifying dependents who had positive pre-credit tax liability but did not claim a credit. It is possible that some of those households did not have any eligible K-12 education expenses. Over 23 percent of these households had income below $30,000 which may qualify many of these households for free or reduced-price lunches from Iowa public schools.[18] Iowa law does not allow schools to charge fees for families qualifying for free lunch, and requires a reduced fee for families qualifying for reduced-price lunch. For the 2010-2011 school year 38.2 percent of students in Iowa public schools qualified for free or reduced-price lunches.

However, nearly three-fourths of eligible households failing to claim the credit reported AGI above $30,000 and positive pre-credit tax liability. Many of these households probably had eligible education expenses; this suggests that these households lacked information about the Tuition and Textbook Tax Credit. They either did not know the credit existed or thought the credit was just for private school tuition, or even college expenses. Another interesting finding is that 134,390 of these 185,597 households (72.4 percent) used a tax preparer, though it cannot

[15] Pre-credit tax liability is defined as total tax from line 46 of the Iowa 1040 individual income tax form minus the total exemption credits from line 47 of the Iowa 1040; the Tuition and Textbook Tax Credit is reported on line 48. This definition is consistent with the order in which credits are to be subtracted in arriving at tax liability based on the IDR administrative rules; the exemption credits are to be subtracted first from total computed tax and the Tuition and Textbook Tax Credit is to be subtracted second; Iowa Administrative Code 701-42.44.

[16] Upon voter approval, school districts may initiate educational improvement programs where school boards may raise an additional portion of the state cost per pupil through a surtax on individual income tax liability owed to the State and through an accompanying property tax.

[17] Pre-credit tax liability is defined as total tax from line 46 of the Iowa 1040 less exemption credits.

[18] To qualify for the free or reduced-price lunch program, family income must be at or below 130 percent of federal poverty levels.

be determined if the taxpayer or the preparer was not aware of the TTC. Among the 121,003 households who did claim a TTC, 85,804 (70.9 percent) used a tax preparer.

If the 185,597 households were to make a TTC claim this would result in a significant increase in State assistance for educational expenses. Assuming these households have the same average tuition expenses per dependent as current claimants, based on their county of residence, household income, and marital status, it is estimated that in tax year 2010 these taxpayers would have claimed $21.4 million in credits for a total of $36.5 million of claims.

G. Additional Analysis of Utilization of the Tuition and Textbook Tax Credit

As seen in Figure 6 and discussed in Section V(C), there is a great deal of variation in utilization of the Tuition and Textbook Tax Credit among school districts. Statewide, the utilization rate is only 35.1 percent and ranges from 8.1 percent in the Corning School District to 58.7 percent in the Western Dubuque School District. This section attempts to explain the variation in utilization rates across school districts. The variation in utilization rates was modeled using linear regression techniques over all 359 school districts for tax year 2010.

As previously discussed, the taxpayer must have a tax liability to apply the credit against because the credit is nonrefundable. Higher tax liabilities usually correspond with higher incomes, thus the median adjusted gross income (AGI) for each school district served as an explanatory variable.[19] It would be expected that school districts with higher median income would have higher utilization because there would be more taxpayers with positive tax liabilities. Thus a positive correlation between the utilization rate and median AGI would be expected.

Conversely, families of students who receive free lunches cannot be charged for expenses by the schools. Taxpayers who do not have any school expenses would not be eligible to claim the TTC, thus the percentage of students in the Free or Reduced-Price Lunch Program for each school district should be related to utilization. The relationship between the credit utilization rate and the percentage of students participating in the Free or Reduced-Price Lunch Program is expected to be negative.

Table 12 and Figure 6 suggest that the highest utilization rates are associated with the presence of a private school within the district. As more students attend private school in a school district, there would be more households with eligible expenses. Possibly, there is also more knowledge about the TTC among parents with children in private schools; however, the degree to which a private school may inform parents about the TTC is unknown. The relationship between the utilization rate and the percentage of students attending private schools is expected to be positive.

Among the 359 school districts, the mean utilization rate in tax year 2010 was 35.7 percent (see Table 16a). The median AGI ranged from $21,694 to $64,770. The percentage of students participating in the Free or Reduced-Price Lunch Program ranged from 7.8 percent to 78.6 percent. The mean percent of students enrolled in private schools among the school districts was 2.7 percent.

The expectations discussed above were confirmed by the analysis; the median AGI and the percentage of students in private schools variables are positively related with the utilization rate, while the percentage of students in the Free or Reduced-Price Lunch Program is negatively related (see Table 16b). The relationship between the utilization rate and all variables are

[19] The median is the numerical value separating the higher half of the observations, from the lower half.

statistically significant except for the percentage of students receiving free or reduced-price lunches. Changes in variables found to be significant have a measurable impact on the utilization rate across school districts. For example, each one percentage point increase in the share of students attending private schools is estimated to result in a 0.376 percentage point increase in the utilization rate. However, this model only explains 22 percent of the variability in the utilization rates across school districts. This suggests that the variability is explained by something difficult to quantify or not easily observed, such as different levels of knowledge about the TTC across school districts.[20]

VI. Analysis of Alternative Tax Proposals for the Tuition and Textbook Tax Credit

The final section presents estimates of the fiscal impact for alternative tax law proposals relevant to the Tuition and Textbook Tax Credit. IDR does not endorse any of the proposals, but provides these estimates of revenue changes for informational purposes. The estimates use tax year 2010 returns with no attempt to account for economic growth or any tax law changes since 2010. Therefore the results should be interpreted as what would have been the effect had the alternative policy been in place for tax year 2010.

The estimates from 2010 were completed using the IDR individual income tax micro model based on tax returns from 2010 and applying 2010 Iowa and federal tax law. The model uses all 1.5 million returns filed with IDR including the 121,003 returns with TTC claims. The model calculates each taxpayer's tax liability under current law and the alternative policy. The sum of the difference between new tax liability under the alternative and tax liability under current law for all taxpayers is the revenue effect of the alternative tax policy. Because no data are available on how changes in the TTC would increase knowledge about the credit and thus the number of claimants, all estimates are limited to calculated changes in the liability for the 121,003 claimants, essentially assuming no behavioral change in response to any policy change. Thus the estimates are lower-bound estimates for any proposal that might raise knowledge of the program.

The first three proposals analyzed raise the credit percentage from the current 25 percent of eligible expenses per dependent to 50 percent, 75 percent, and 100 percent respectively (see Table 17). These proposals would simply allow credit claimants to claim a larger share of their eligible education expenses. Raising the credit to 50 percent produced additional credit claims of $14.6 million, while raising the credit to 75 percent and 100 percent produced additional claim amounts of $28.7 million and $42.1 million respectively. Because the credit is nonrefundable, taxpayers would not be able to use their full credit as the percentage rises. However, these results indicate that this would not be a significant issue for most taxpayers, as the increase in estimated credits is fairly linear as the credit percentages increase. It is important to recall that these estimates assume no increase in utilization as the credit rises, which is not likely.

The fourth proposal eliminates the Tuition and Textbook Tax Credit and raises the Dependent Exemption Credit in order to achieve revenue neutrality.[21] One argument in favor of this proposal would be that all taxpayers with dependents would be compensated; not just the one-

[20] Other independent variables were considered such as the number of private schools in the school district and an interaction variable which was the product of the number of private schools and the median income for the school district. However, when these other variables were used there was no improvement to the explanatory power of the model.
[21] The Dependent Exemption Credit, currently $40, can be claimed for every dependent reported on the return, but is nonrefundable.

third of taxpayers who claim the Tuition and Textbook Tax Credit because they have knowledge about the credit. A 50 percent increase in the Dependent Exemption Credit from $40 to $60, and elimination of the Tuition and Textbook Tax Credit results in a fairly revenue neutral result (an estimated revenue loss of $587 thousand dollars). Taxpayers with income below $60,000 are estimated to experience a decrease in tax liability while higher-income taxpayers are estimated to experience an increase in tax liability.

The fifth and sixth proposals both entail re-enacting the $45,000 household income limitation that was in place prior to 1996. These proposals could be viewed as redistributive in nature, as taxpayers with income above $45,000 would no longer be able to claim the credit. The fifth proposal simply reinstates the $45,000 income limit. As expected, there is no revenue impact below $40,000, but an estimated tax increase of $13.3 million for taxpayers with AGI above $40,000. The sixth proposal would reinstate the $45,000 income limitation, but also increase the credit percentage to target the same cost as under current law. Implementing the $45,000 income limitation and raising the credit to 100 percent, however, would still result in an $8.8 million increase in total tax liability. Taxpayers with AGI below $50,000 (applicable to incomes up to $45,000) receive a larger credit and tax decrease due the credit percentage increase, while taxpayers above that income level experience a tax increase as they can no longer claim the credit. Even though the intent of this proposal was to produce revenue neutrality, the previous $45,000 income limitation is too low to generate revenue neutrality, even when taxpayers can claim all of their eligible expenses up to $1,000 per dependent. In order to achieve an estimated revenue neutral result, the income limitation would have to be higher than $45,000, or the $1,000 limit per dependent on eligible expenses would have to be raised.

The seventh proposal would make the credit more progressive while still allowing taxpayers to make claims at the same fiscal cost. The proposal entails raising the credit percentage for taxpayers with income of $45,000 or less to 50 percent, retaining the 25 percent credit percentage for taxpayers with incomes between $45,001 and $100,000, and lowering the credit percentage for taxpayers with income over $100,000 to 15 percent. The proposal produces an estimated net tax increase of $885,000. Taxpayers with income of $50,000 or less experience a tax decrease totaling $1.7 million; taxpayers with income over $100,000 experience a tax increase totaling $2.6 million, while taxpayers with income between $50,000 and $100,000 are unaffected.

The eighth proposal entails eliminating the Sales Tax Holiday on clothes and shoes and raising the Tuition and Textbook Tax Credit percentage to a level that would produce revenue neutrality. The Sales Tax Holiday occurs on the first Friday and Saturday in August, with the goal of assisting parents with the purchase of back-to-school clothing. However, the sales tax exemption applies to eligible purchases made by all consumers, whether or not the items are purchased for school-age dependents. The TTC is better targeted to assist parents with dependents in school because having dependents in grades kindergarten through 12 is a requirement for claiming the credit. IDR estimated that the Sales Tax Holiday reduced sales tax receipts by approximately $4.4 million in 2010. Raising the Tuition and Textbook Tax Credit percentage to 32 percent will produce a similar cost to the state of approximately $4.1 million. However, this assumes that the shift from the holiday to a higher credit would not raise awareness of the credit. Recall, that if utilization rates were raised to 100 percent of households with qualifying dependents with tax liability, credit claims under current law are estimated to rise by $21.4 million.

VII. Conclusion

The evaluation of the TTC provides a detailed explanation of who claims the credit and how much credit had been claimed. For tax year 2010, there were 121,003 households that claimed the TTC. These households claimed nearly $15.1 million in credits for the education expenses of 234,763 qualifying dependents. The average credit claimed per household was $124, with 7.2 percent of all claimants reporting the maximum credit possible of $250 times the number of qualifying dependents.

Iowa residents claimed $15.0 million of the $15.1 million, which is not surprising since students must attend accredited Iowa schools. Married taxpayers comprised 81.2 percent of claimants, while approximately 90.0 percent of the claimants and 92.3 percent of the claims were from taxpayers ages 31 to 55. There were 486 taxpayers who had their tax liability reduced to zero, while over 61.0 percent of these filers had income below $20,000.

Two pieces of analysis really stood out in this study. The first is the distribution of the TTC by income. Only 1.5 percent of claimants earned less than $20,000 in AGI, while 27.3 percent of claimants had income between $20,000 and $50,000, and 71.2 percent of claimants had AGI of $50,000 or more. This is in part due to the nonrefundability of the TTC; taxpayers must have a tax liability to apply the credit against. In addition, there are no income limitations for claiming the credit. There are other reasons that also suggest why it may be difficult for lower-income households to claim the credit or send their children to private school. Other Iowa "family" credits' distributions by income are more weighted towards lower-income households relative to the TTC because those credits have income restrictions.

The other important finding of this study is the low utilization rate of the TTC. Only 35.1 percent of filers with qualifying dependents claim the TTC statewide. The utilization rate varies across school districts ranging from 8.1 percent in the Corning School District to 58.7 percent in the Western Dubuque School District. Of the approximately 220,000 resident households with qualifying dependents, 16.0 percent of these filers did not have a tax liability and thus could not claim the TTC. However approximately 84.0 percent of these filers had qualifying dependents and had pre-credit tax liability but did not claim the TTC. It is possible that some taxpayers did not have any eligible expenses. For example, schools are prohibited from charging fees to families participating in the free lunch program. However, it is probable that there is a lack of knowledge about the TTC program, either in terms of a complete lack of knowledge, or not understanding which types of taxpayers the program is targeting.

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Iowa’s Tuition and Textbook Tax Credit

Tax Credits Program Evaluation Study

Tables and Figures

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Table 1. Eligible and Ineligible Expenditures for the Iowa Tuition and Textbook Tax Credit

Expenditure Category	Eligible Expenditures	Ineligible Expenditures
Tuition	Tuition for any K-12 school that is accredited	Any amount for food, lodging, or clothing or amounts paid relating to the teaching of religious tenets, doctrines or worship; amounts for private instruction or tutoring not paid to a school
Textbooks and Publications	Textbooks and other instructional materials used in teaching subjects legally and commonly taught in Iowa's public elementary and secondary schools, including those needed for extracurricular activities (including fees for required textbooks and supplies); computers, if required	Yearbooks or annuals; textbook fines
Clothing	Rental or purchase of “non-street” costumes for a play or special clothing for a concert not suitable for everyday wear; rental of prom dresses and tuxedos	Clothes which can be used for street wear, such as T-shirts for extracurricular events; clothing for a play or concert that is suitable for everyday wear; purchase of prom dresses and tuxedos
Driver's Education	Only if paid to the K-12 school	Paid to other than a K-12 school
Dues, Fees and Admissions	Annual school fees; fees or dues paid for extracurricular activities ; booster club dues (for dependent only); fees for athletics; activity ticket or admission for K-12 school athletic, academic, music, or dramatic events and awards banquets or buffets; fees for a physical education event such as roller skating; advanced placement fees if paid to high school; fees for homecoming, winter formal, prom, or similar events	Sports-related socials; special education programs like career conferences; special testing like SAT, PSAT, ACT and Iowa talent search tests; fees paid to K-12 schools for college credit or special programs at colleges and universities; advanced placement fees if paid to a college or a university
Materials for Extracurricular Activities	Materials for extracurricular activities, such as sporting events, speech activities, musical or dramatic events, awards banquets, homecoming, prom, and other school-related social events	Class rings
Music	Rental of musical instruments for school or band; music / instrument lessons at a school; sheet music used in a school; music books and materials used in school bands or orchestras for maintenance of instruments, including reeds, strings, picks, grease, and other consumables	Purchase of musical instruments (including rent-to-own contracts); music lessons outside of school; sheet music for private use
Religion	--------	Amounts paid are not allowed if they relate to teaching of religious tenets, doctrines, or worship
Shoes	Football, soccer, and golf shoes; other shoes with cleats or spikes not suitable for street wear for teams associated with the school	Basketball shoes and other shoes suitable for everyday wear
Supplies for Industrial Arts, Home Economics or Equivalent Classes	Cost of required basic materials for classes such as shop class, mechanics class, agricultural class, home economics class, or equivalent classes	Optional expenditures or materials used for personal projects of the dependents or for family benefit
Travel	Fees for transportation to and from school if paid to the school; fees for field trips if the trip is during school hours	Travel expenses for overnight trips which involve payment for meals and lodging
Uniforms	Band and athletic uniforms	--------

Sources: IDR individual income tax instructions and Iowa Administrative Rules Chapter 701.42.4.

Table 2. Tax Programs for Education Expenses by State, Tax Year 2010

State	Year Enacted	State Code Citation	Type of Assistance	Refundable	Credit Carryforward	General Provisions	Notes
Arizona	1997	Sect. 43-1089.01	Credit	No	5 years	100% of qualifying expenses. Maximum credit of $200 (single, head of household) $400 (married taxpayers).	Applies only to fees for extracurricular public school activities or Character Education programs.
Illinois	1999	35 ILCS 5/201 (m)	Credit	No	5 years	25% of qualifying expenses above $250. Maximum credit of $500 per household.	
Indiana	2011	IC 6-3-2-22	Adjustment to Income	N.A.	N.A.	$1,000 deduction per dependent who is enrolled in a private school or home schooled in grades kintergarten through 12.	
Iowa	1987	Sect. 422.12	Credit	No	No	25% on the first $1,000 of qualifying expenses per dependent. Maximum credit of $250 per dependent.	
Louisiana	2008	Sect. 47:297.10 through Sect. 47:297.12	Adjustment to Income	N.A.	N.A.	100% of expenses which pertain to nonpublic schools or public laboratory schools operated by a college or university; 50% of expenses otherwise. Maximum adjustment of $5,000 per student.	
	1980	Sect. 47:297 (D)	Credit	No	No	$25 for each dependent enrolled in grades kindergarten through 12.	Suspended from 1986 - 1996 and 2000 - 2005.
Minnesota	1955	Sect. 290.09 (19)	Adjustment to Income	N.A.	N.A.	100% of qualifying elementary expenses up to $1,625 (up to $2,500 for secondary expenses) per child.	Taxpayers whose income exceeds the credit phase-out may still take the adjustment. A taxpayer may take the deduction for any eligible expenses that exceed the maximum credit.
	1971	Sect. 290.0674	Credit	Yes	No	75% of qualifying expenses. Maximum credit of $1,000 per student or $2,000 per family. For families with one or two children, the credit is phased out beginning at $33,500 and completely phased-out at $37,500. The phase-out is extended by $2,000 for each additional dependent.	The original credit ran from 1971-1973 before being struck down by the Minnesota Supreme Court. The present credit was established in 1998.

N.A. = Not Applicable

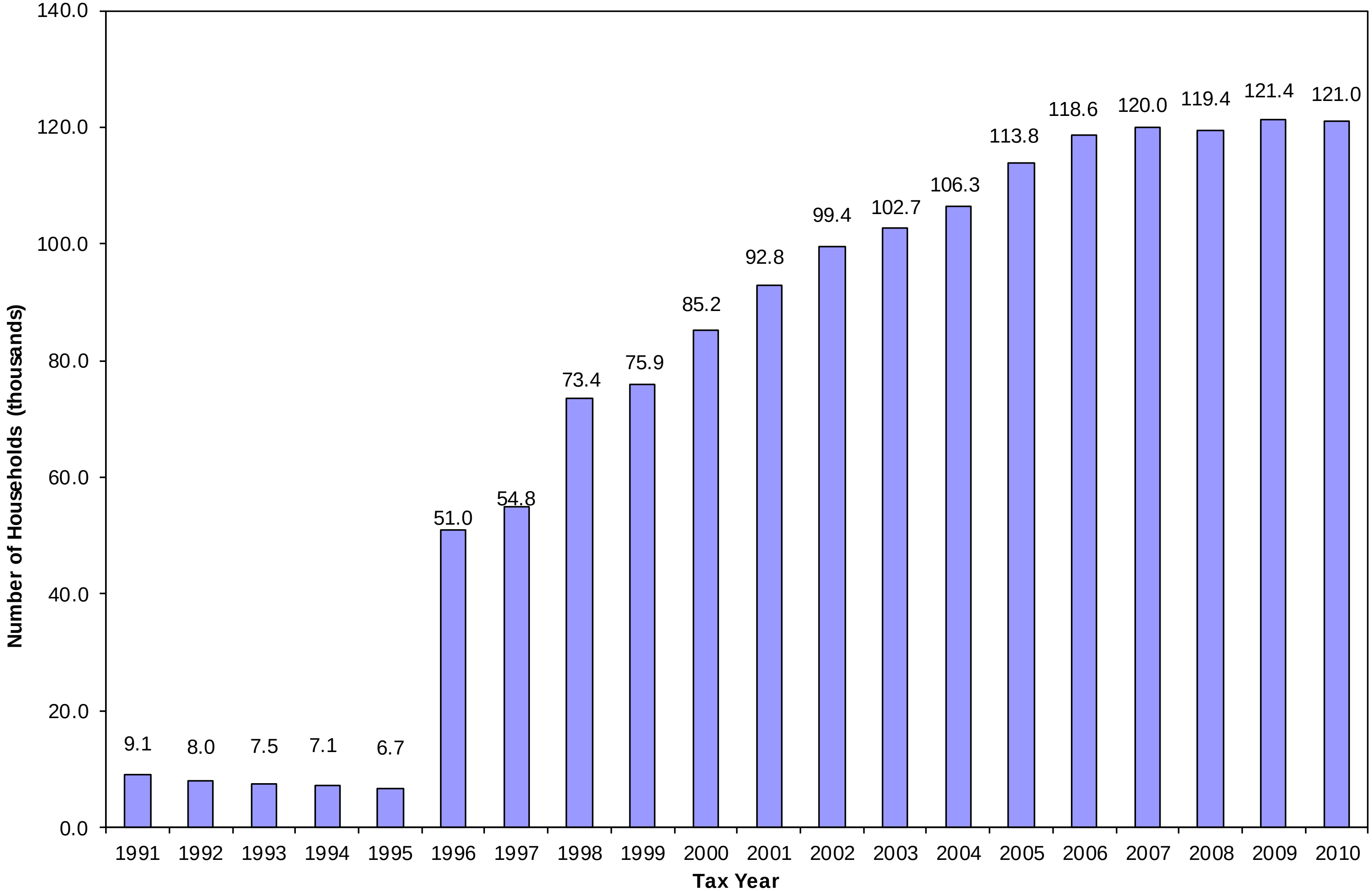
Sources: Arizona, Illinois, Indiana, Iowa, Louisiana, and Minnesota tax forms, schedules, and publications.

Table 3. Eligible and Ineligible Tuition and Textbook Expenditures in Other States, Tax Year 2010

State	Eligible Expenditures	Not Eligible Expenditures
Arizona	Expenses incurred during qualifying activities which include, but are not limited to, the use of band uniforms, use of equipment or uniforms for varsity athletics, use of scientific laboratory equipment or materials, or in-state or out-of-state trips that are soley for competitive events.	Expenses incurred during trips or events that are recreational, amusement, or tourist activities; expenses paid to nongovernmental schools, preschools, community colleges, and universities.
Illinois	Tuition (including summer school classes required for elementary or secondary graduation requirements). Book fees paid for the rental of books required as a part of the school's education program. Lab fees paid for the use of supplies, equipment, materials, or instruments required as part of a lab course in the school's education program	Tuition paid to a college, university, independent tutoring service, trade school, daycare, preschool or a kindergarten at a school that does not have a first grade. Supplies, books, or equipment that are not significantly used up during the school year (e.g. costumes for a play). Supplies, equipment, materials, or instruments if the program does not result in a credit towards completion of the school's education program. Expenses paid directly to a business. Tutoring or enrichment classes that do not count toward the required curriculum. After-school care, including expenses paid to the school. Expenses for education pursued by the taxpayer or his or her spouse.
Indiana	Tuition, fees, computer software, textbooks, workbooks, curricula, school supplies (other than personal computors) and other written materials used for academic instruction or tutoring. Amounts paid for textbooks and curricula necessary for home schooling.	The delivery of instructional service in a home setting to a dependent child enrolled in a school corporation or charter school. Personal computers.
Louisiana	Tuition and fees for enrollment in a nonpublic school, purchase of school uniforms required for daily use, textbooks, curricula, or other instructional materials required by the public or nonpublic school. Amounts paid for textbooks and curricula necessary for home schooling	Extracurricular fees including but not limited to, athletic fees, band fees, fees for field trips, and before- or after-school care, even if the fees are related to academic pursuit.
Minnesota	**For the adjustment to income only:** Private school tuition and tuition paid for college or summer school courses that are used to satisfy high school graduation requirements. **For the adjustment or the tax credit:** Instructor fees and tuition for classes or lessons taken outside the regular school day if the instructor is not the child's sibling, parent, or grandparent, such as after-school enrichment programs; tuition for summer camps that are academic in focus such as language or fine arts camps; instructor fees for driver's education if the school offers the class; fees for all-day kindergarten, tutoring, and music lessons. Purchases of required educational material for use during the regular school day, including purchase or rental of musical instruments used during the regular school day. Fees paid to others for transportation to and from school for the regular school day, including field trips during the school day. Home computer hardware for personal use and educational software up to $200 for the credit and up to an additional $200 for the adjustment; for example, if the taxpayer paid $300, $200 can be applied to the credit and $100 can be applied to the deduction.	Tuition for preschool or post-high school classes. Fees for extracurricular academic instruction provided by the child's sibling, parent, or grandparent. Purchases of materials for extracurricular activities, such as uniforms for school band or sports or expenses. Fees paid to others for transportation to and from activities outside the regular school day, including travel expenses, lodging, and meals for overnight class trips. Non-educational software and monthly internet fees. Fees paid for materials and textbooks used in a program that teaches religious beliefs. Sports camps or lessons. School lunches.

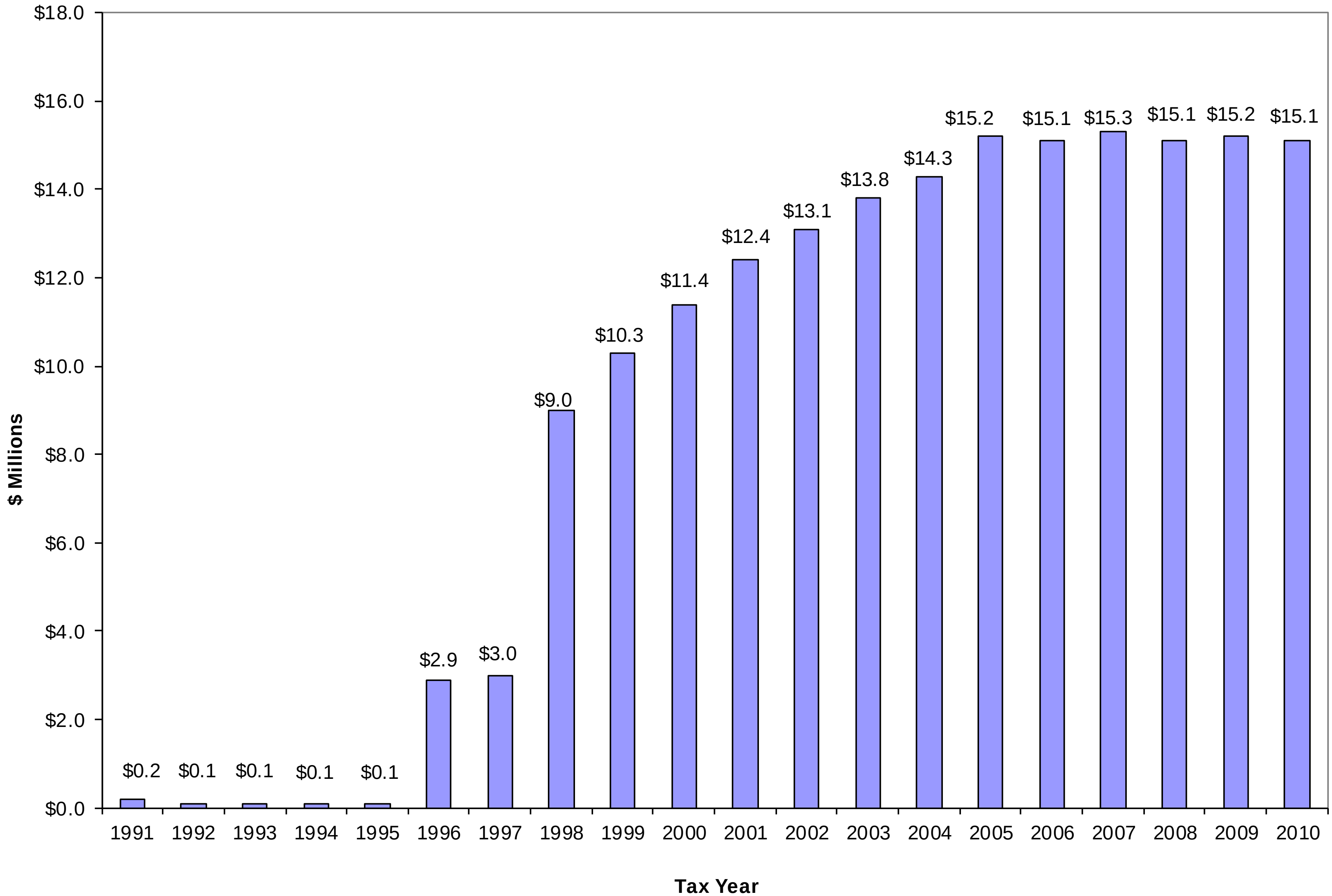
Sources: Arizona, Illinois, Indiana, Louisiana, and Minnesota state income tax forms, schedules, and publications. Larson and Mazi, 2011.

Figure 1. Number of Households Claiming the Tuition and Textbook Tax Credit, Tax Years 1991 through 2010



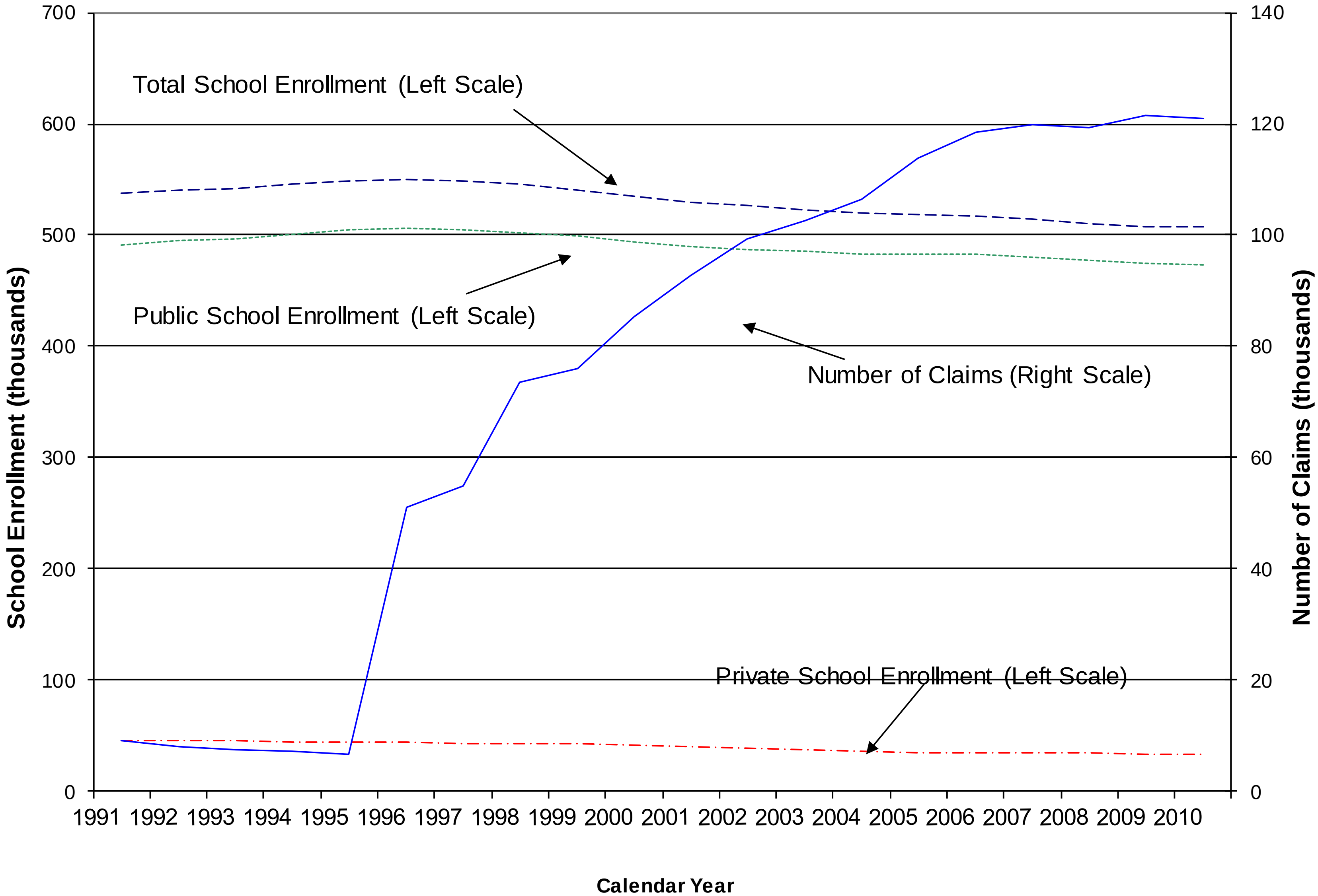
Source: IDR Individual Income Tax Annual Statistical Reports

Figure 2. Total Tuition and Textbook Tax Credit Claims, Tax Years 1991 through 2010



Source: IDR Individual Income Tax Annual Statistical Reports

Figure 3. School Enrollment and Number of Tuition and Textbook Tax Credit Claims



Source: IDR 2010 individual income tax returns; Iowa Department of Education Annual Condition of Education Report 2011, p.2

Table 4. Age of Dependents Reported by Tuition and Textbook Tax Credit Claimants, Tax Year 2010

Age	Number of Dependents	Distribution of Dependents
5	10,802	4.07%
6	12,946	4.88%
7	13,739	5.18%
8	13,936	5.25%
9	14,497	5.46%
10	15,258	5.75%
11	15,464	5.83%
12	15,991	6.03%
13	16,217	6.11%
14	16,630	6.27%
15	16,866	6.35%
16	17,288	6.51%
17	16,936	6.38%
18	13,280	5.00%
19	8,311	3.13%
20	5,628	2.12%
21	3,775	1.42%
Subtotal	**227,564**	**85.74%**
0 to 4	26,833	10.11%
22-24	3,353	1.26%
25 and over	2,082	0.78%
Subtotal	**259,832**	**97.90%**
Missing (1)	5,570	2.10%
Total	**265,402**	**100.00%**

Source: 2010 IDR and Internal Revenue Service individual income tax returns

(1) The IRS captures birth dates for the first four dependents. In households with five or more dependents, the eligibility of the first four were verified against the IRS age data; all additional dependents were assumed to be qualified. Dependents missing all age data are assumed to be from ages 5 through 21.

Table 5. Tuition and Textbook Credit Claims by Qualifying Dependents, Tax Year 2010

Number of Qualifying Dependents	Number of Households	Number of Dependents	Distribution of Dependents	Amount of Claims	Distribution of Claims	Average Claim per Household	Average Claim per Dependent
1	43,647	43,647	18.59%	$3,316,411	22.03%	$76	$76
2	50,605	101,210	43.11%	$6,158,805	40.91%	$122	$61
3	20,084	60,252	25.67%	$3,752,286	24.92%	$187	$62
4	4,728	18,912	8.06%	$1,220,916	8.11%	$258	$65
5	1,309	6,545	2.79%	$388,388	2.58%	$297	$59
6	405	2,430	1.04%	$124,669	0.83%	$308	$51
7	124	868	0.37%	$49,849	0.33%	$402	$57
8	63	504	0.21%	$26,097	0.17%	$414	$52
9	19	171	0.07%	$9,897	0.07%	$521	$58
10 or more	19	224	0.10%	$8,900	0.06%	$468	$40
Total	121,003	234,763	100.00%	$15,056,218	100.00%	$124	$64

Source: 2010 IDR and Internal Revenue Service individual income tax returns

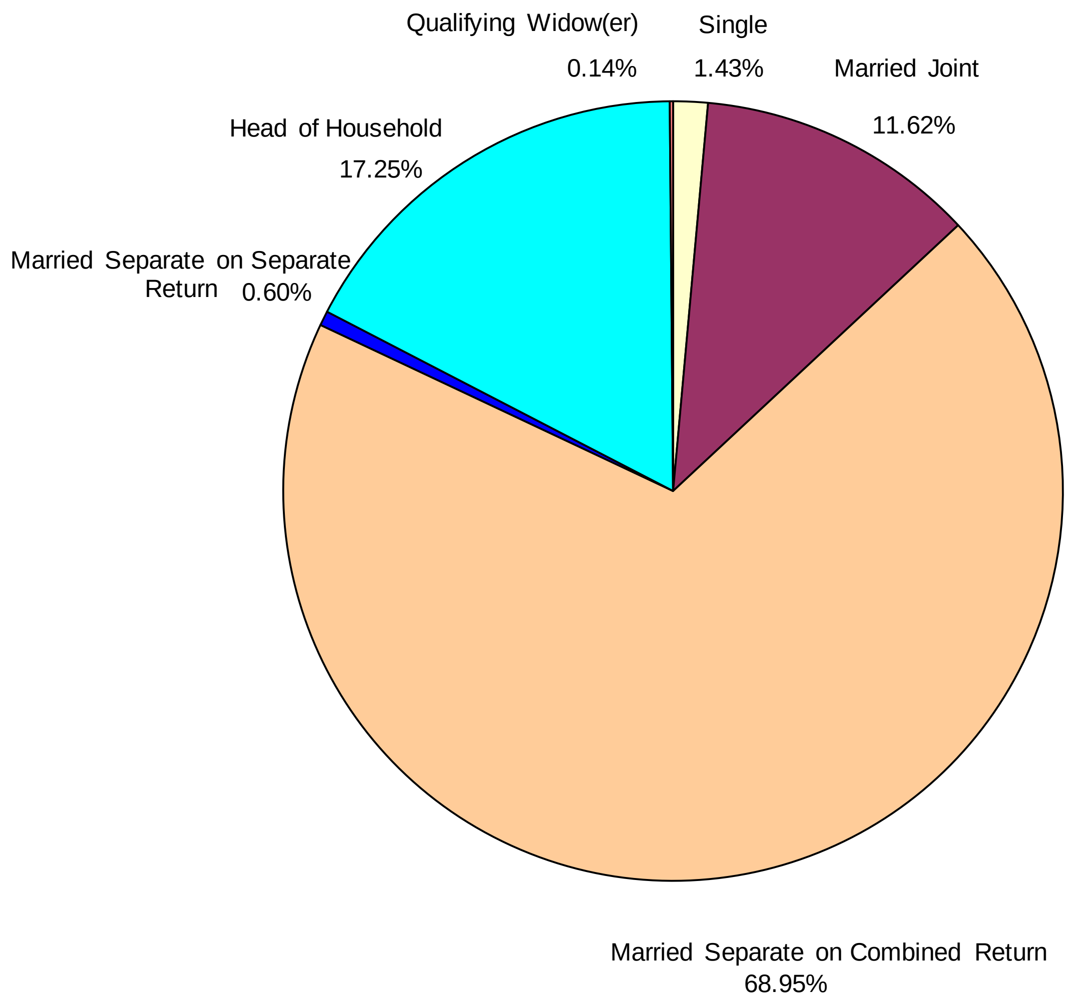
Table 6. Tuition and Textbook Tax Credit Claims by Resident Status, Tax Year 2010

State of Residence	Number of Households	Amount of Claims	Number of Dependents
Iowa Residents	120,543	$14,966,004	231,986
Nonresidents			
Moved Out of Iowa	182	$30,423	437
Illinois	15	$3,694	29
Iowa (1)	18	$1,793	31
Minnesota	28	$4,500	60
Missouri	12	$3,349	19
Nebraska	80	$14,872	133
South Dakota	51	$16,618	113
Wisconsin	17	$3,948	36
Not Contiguous to Iowa	57	$11,017	119
Nonresidents Total	460	$90,214	977
Total	121,003	$15,056,218	232,963

Source: IDR 2010 and Internal Revenue Service individual income tax returns

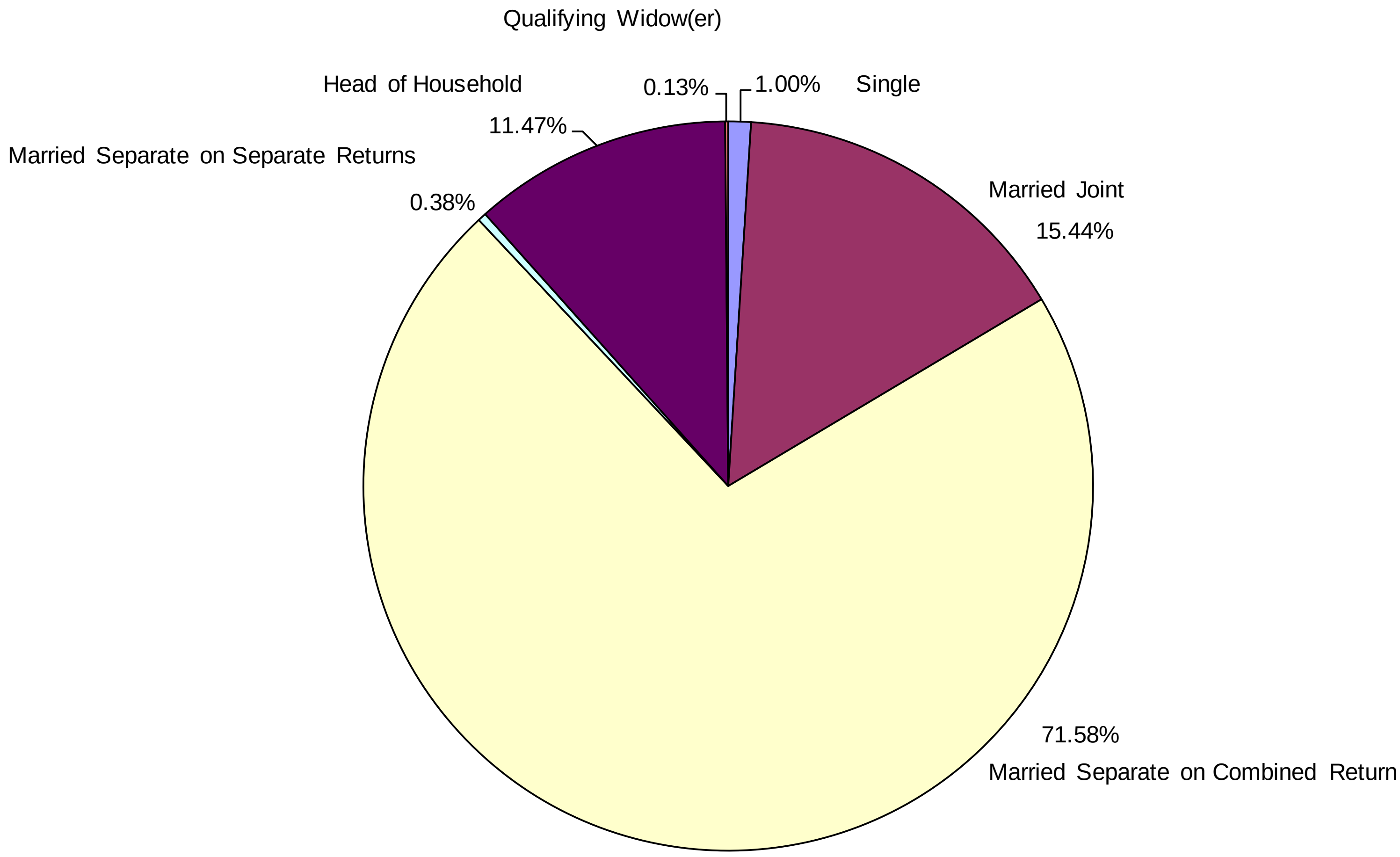
(1) There were 18 returns with an Iowa address that did not report a valid Iowa county number.

Figure 4. Distribution of Number of Tuition and Textbook Tax Credit Claims by Filing Status, Tax Year 2010



Source: IDR 2010 individual income tax returns

Figure 5. Distribution of Amount of Tuition and Textbook Tax Credit Claims by Filing Status, Tax Year 2010



Source: IDR 2010 individual income tax returns

Table 7. Tuition and Textbook Tax Credit Claims by Taxpayer Age, Tax Year 2010

Taxpayer Age	Number of Households	Distribution of Households	Amount of Claims	Distribution of Claims	Average Claim
20 and under	156	0.13%	$25,285	0.17%	$162
21-25	760	0.63%	$56,597	0.38%	$74
26-30	5,736	4.74%	$402,273	2.67%	$70
31-35	16,444	13.59%	$1,451,389	9.64%	$88
36-40	26,007	21.49%	$3,111,001	20.66%	$120
41-45	29,505	24.38%	$4,202,893	27.91%	$142
46-50	24,722	20.43%	$3,481,452	23.12%	$141
51-55	12,282	10.15%	$1,653,020	10.98%	$135
56-60	4,128	3.41%	$522,458	3.47%	$127
61-65	990	0.82%	$119,471	0.79%	$121
66 and older	273	0.23%	$30,379	0.20%	$111
Total	121,003	100.00%	$15,056,218	100.00%	$124

Source: IDR 2010 and Internal Revenue Service individual income tax returns

Note: In married households, taxpayer age was based on the spouse indicated as the primary taxpayer.

Table 8. Tuition and Textbook Tax Credit Claims by Adjusted Gross Income, Tax Year 2010

Iowa Adjusted Gross Income	Number of Households	Distribution of Households	Amount Claimed	Distribution of Claims	Average Claim	Eligible Expenses	Utilization Rate
Less than $ 20,000	1,773	1.47%	$100,443	0.67%	$57	$401,772	3.26%
$ 20,000 - $ 29,999	9,454	7.81%	$731,250	4.86%	$77	$2,925,000	23.94%
$ 30,000 - $ 39,999	11,491	9.50%	$1,075,360	7.14%	$94	$4,301,440	32.79%
$ 40,000 - $ 49,999	12,104	10.00%	$1,223,445	8.13%	$101	$4,893,780	39.70%
$ 50,000 - $ 59,999	12,674	10.47%	$1,384,448	9.20%	$109	$5,537,792	43.96%
$ 60,000 - $ 69,999	13,048	10.78%	$1,479,611	9.83%	$113	$5,918,444	47.24%
$ 70,000 - $ 79,999	11,833	9.78%	$1,394,496	9.26%	$118	$5,577,984	48.14%
$ 80,000 - $ 89,999	10,244	8.47%	$1,283,458	8.52%	$125	$5,133,832	48.31%
$ 90,000 - $ 99,999	8,658	7.16%	$1,150,907	7.64%	$133	$4,603,628	49.01%
$100,000 - $124,999	13,713	11.33%	$2,025,998	13.46%	$148	$8,103,992	48.10%
$125,000 - $149,999	6,448	5.33%	$1,057,919	7.03%	$164	$4,231,676	46.55%
$150,000 - $174,999	3,283	2.71%	$603,374	4.01%	$184	$2,413,496	44.94%
$175,000 - $199,999	1,686	1.39%	$354,478	2.35%	$210	$1,417,912	41.56%
$200,000 - $249,999	1,770	1.46%	$396,024	2.63%	$224	$1,584,096	41.53%
$250,000 - $499,999	2,076	1.72%	$555,255	3.69%	$267	$2,221,020	38.30%
$500,000 - $999,999	581	0.48%	$180,394	1.20%	$310	$721,576	35.92%
$1,000,000 and over	167	0.14%	$59,358	0.39%	$355	$237,432	30.50%
Total	121,003	100.00%	$15,056,218	100.00%	$124	$60,224,872	35.10%

Source: IDR 2010 individual income tax returns

Figure 6. Tuition and Textbook Tax Credit Utilization Rates by School District, Tax Year 2010

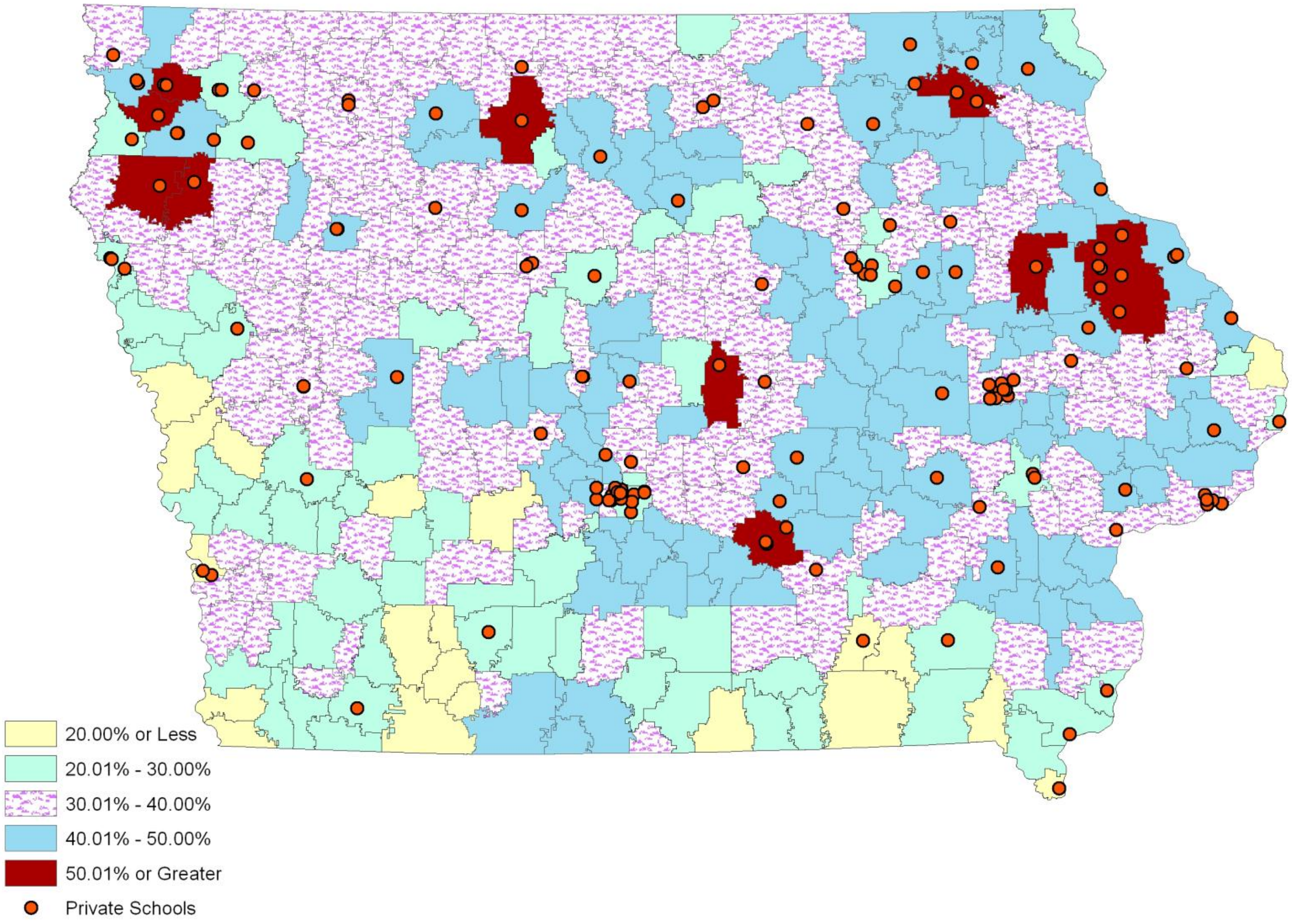


Table 9. Top Ten School Districts by Total Tuition and Textbook Tax Credit Claims, Tax Year 2010

	School District	County Location of Adminstrative Offices	Number of Eligible Households: Rank	Number of Eligible Households: Number	Tuition and Textbook Credit Claims: Number of Claims	Tuition and Textbook Credit Claims: Total Amount of Claims	Tuition and Textbook Credit Claims: Percent of All Dollars Claimed	Tuition and Textbook Credit Claims: Utilization Rate
1	DES MOINES	POLK	1	24,662	6,821	$893,276	5.93%	27.66%
2	CEDAR RAPIDS	LINN	2	13,686	4,853	$774,681	5.15%	35.46%
3	DAVENPORT	SCOTT	3	12,417	3,869	$559,993	3.72%	31.16%
4	DUBUQUE	DUBUQUE	7	8,554	3,686	$550,425	3.66%	43.09%
5	WEST DES MOINES	POLK	8	7,449	2,887	$521,651	3.46%	38.76%
6	SIOUX CITY	WOODBURY	4	10,405	3,023	$496,869	3.30%	29.05%
7	WATERLOO	BLACK HAWK	6	8,585	2,123	$375,717	2.50%	24.73%
8	IOWA CITY	JOHNSON	5	8,937	2,564	$372,046	2.47%	28.69%
9	WESTERN DUBUQUE	DUBUQUE	27	2,568	1,508	$367,211	2.44%	58.72%
10	LINN MAR	LINN	11	4,379	1,704	$226,751	1.51%	38.91%

Source: IDR 2010 individual income tax returns

Table 10. Top Ten School Districts by Tuition and Textbook Tax Credit Claims per Pupil, Tax Year 2010

	School District	County Location of Adminstrative Offices	Total Enrollment (1): Rank	Total Enrollment (1): Number	Tuition and Textbook Credit Claims: Number of Households	Tuition and Textbook Credit Claims: Total Amount of Claims	Tuition and Textbook Credit Claims: Percent of All Dollars Claimed	Tuition and Textbook Credit Claims: Credit Per Pupil	Tuition and Textbook Credit Claims: Utilization Rate
1	SIOUX CENTER	SIOUX	76	1,428	547	$160,474	1.07%	$112	54.92%
2	LINEVILLE-CLIO	WAYNE	359	19	17	$1,963	0.01%	$103	30.91%
3	CORWITH-WESLEY	HANCOCK	351	89	60	$8,549	0.06%	$96	48.00%
4	REMSEN-UNION	PLYMOUTH	204	576	208	$54,546	0.36%	$95	57.46%
5	WESTERN DUBUQUE	DUBUQUE	22	4,515	1,508	$367,211	2.44%	$81	58.72%
6	ROCK VALLEY	SIOUX	102	1,173	274	$90,991	0.60%	$78	46.05%
7	CARROLL	CARROLL	34	2,731	834	$198,477	1.32%	$73	49.00%
8	BOYDEN-HULL	SIOUX	99	1,206	284	$84,435	0.56%	$70	53.48%
9	NORTH KOSSUTH	KOSSUTH	315	250	80	$16,231	0.11%	$65	34.63%
10	MOC-FLOYD VALLEY	SIOUX	48	2,085	532	$123,825	0.82%	$59	43.46%

Source: IDR 2010 individual income tax returns and Department of Education enrollment data

(1) Enrollment includes public school students as well as students attending private schools located in the public school district

Table 11. Top Ten School Districts by Average Tuition and Textbook Tax Credit Claim, Tax Year 2010

	School District	County Location of Adminstrative Offices	Number of Eligible Households: Rank	Number of Eligible Households: Number	Tuition and Textbook Credit Claims: Number of Households	Total Amount of Claims	Percent of All Dollars Claimed	Average Claim	Utilization Rate
1	ROCK VALLEY	SIOUX	120	595	274	$90,991	0.60%	$332	46.05%
2	BOYDEN-HULL	SIOUX	136	531	284	$84,435	0.56%	$297	53.48%
3	SIOUX CENTER	SIOUX	73	996	547	$160,474	1.07%	$293	54.92%
4	SHELDON	O' BRIEN	98	784	181	$51,957	0.35%	$287	23.09%
5	REMSEN-UNION	PLYMOUTH	215	362	208	$54,546	0.36%	$262	57.46%
6	WESTERN DUBUQUE	DUBUQUE	27	2,568	1,508	$367,211	2.44%	$244	58.72%
7	CARROLL	CARROLL	36	1,702	834	$198,477	1.32%	$238	49.00%
8	MOC-FLOYD VALLEY	SIOUX	53	1,224	532	$123,825	0.82%	$233	43.46%
9	WEST SIOUX	SIOUX	153	482	142	$29,456	0.20%	$207	29.46%
10	NORTH KOSSUTH	KOSSUTH	289	231	80	$16,231	0.11%	$203	34.63%

Source: IDR 2010 individual income tax returns

Table 12. Top Ten School Districts by Tuition and Textbook Tax Credit Utilization Rate, Tax Year 2010

	School District	County Location of Adminstrative Offices	Number of Eligible Households: Rank	Number of Eligible Households: Number	Tuition and Textbook Credit Claims: Number of Households	Total Amount of Claims	Percent of All Dollars Claimed	Average Claim	Utilization Rate
1	WESTERN DUBUQUE	DUBUQUE	27	2,568	1,508	$367,211	2.44%	$244	58.72%
2	REMSEN-UNION	PLYMOUTH	215	362	208	$54,546	0.36%	$262	57.46%
3	PELLA	JASPER	35	1,771	989	$143,339	0.95%	$145	55.84%
4	WEST MARSHALL	MARSHALL	133	536	296	$26,310	0.17%	$89	55.22%
5	SIOUX CENTER	SIOUX	73	996	547	$160,474	1.07%	$293	54.92%
6	BOYDEN-HULL	SIOUX	136	531	284	$84,435	0.56%	$297	53.48%
7	SOUTH WINNESHIEK	WINNESHIEK	148	497	259	$33,038	0.22%	$128	52.11%
8	WEST DELAWARE	DELAWARE	57	1,152	582	$73,985	0.49%	$127	50.52%
9	LE MARS	PLYMOUTH	37	1,694	854	$131,504	0.87%	$154	50.41%
10	ALGONA	KOSSUTH	66	1,037	520	$92,947	0.62%	$179	50.14%

Source: IDR 2010 individual income tax returns

Table 13. Number and Amount of Family Tax Credit Claims by Adjusted Gross Income, Tax Year 2010

Iowa Adjusted Gross Income	Tuition and Textbook Tax Credit: Number of Households	Distribution of Households	Amount of Claims	Distribution of Claims	Average Claim	Earned Income Tax Credit: Number of Households	Distribution of Households	Amount of Claims	Distribution of Claims	Average Claim
$0 or less	25	0.0%	$5,197	0.0%	$208	3,349	1.6%	$264,148	1.0%	$79
$1 - $4,999	5	0.0%	$219	0.0%	$44	22,353	10.8%	$932,809	3.4%	$42
$5,000 - $9,999	22	0.0%	$2,739	0.0%	$125	36,651	17.8%	$3,599,298	13.1%	$98
$10,000 - $14,999	149	0.1%	$8,436	0.1%	$57	35,830	17.4%	$5,869,070	21.3%	$164
$15,000 - $19,999	1,570	1.3%	$83,698	0.6%	$53	25,600	12.4%	$6,182,835	22.5%	$242
$20,000 - $24,999	4,263	3.5%	$310,165	2.1%	$73	24,745	12.0%	$4,925,467	17.9%	$199
$25,000 - $29,999	5,193	4.3%	$421,239	2.8%	$81	22,566	10.9%	$3,239,473	11.8%	$144
$30,000 - $34,999	5,663	4.7%	$517,788	3.4%	$91	19,622	9.5%	$1,750,096	6.4%	$89
$35,000 - $39,999	5,828	4.8%	$557,572	3.7%	$96	11,333	5.5%	$661,051	2.4%	$58
$40,000 - $49,999	12,104	10.0%	$1,223,445	8.1%	$101	4,107	2.0%	$111,845	0.4%	$27
$50,000 and over	86,181	71.2%	$11,925,720	79.2%	$138	0	0.0%	$0	0.0%	N.A.
Total	121,003	100.0%	$15,056,218	100.0%	$124	206,156	100.0%	$27,536,092	100.0%	$134

Iowa Adjusted Gross Income	Child and Dependent Care Tax Credit: Number of Households	Distribution of Households	Amount of Claims	Distribution of Claims	Average Claim	Early Childhood Development Tax Credit: Number of Households	Distribution of Households	Amount of Claims	Distribution of Claims	Average Claim
$0 or less	95	0.3%	$57,410	0.7%	$604	25	0.6%	$5,080	0.9%	$203
$1 - $4,999	535	1.9%	$147,164	1.9%	$275	150	3.9%	$22,143	3.7%	$148
$5,000 - $9,999	1,455	5.2%	$514,012	6.6%	$353	238	6.1%	$32,120	5.4%	$135
$10,000 - $14,999	2,390	8.6%	$837,096	10.7%	$350	390	10.0%	$59,266	10.0%	$152
$15,000 - $19,999	3,635	13.1%	$1,255,780	16.1%	$345	493	12.7%	$66,493	11.2%	$135
$20,000 - $24,999	4,327	15.6%	$1,403,372	18.0%	$324	528	13.6%	$78,500	13.3%	$149
$25,000 - $29,999	4,231	15.2%	$1,268,679	16.3%	$300	483	12.4%	$72,607	12.3%	$150
$30,000 - $34,999	3,938	14.2%	$1,104,247	14.2%	$280	498	12.8%	$79,611	13.4%	$160
$35,000 - $39,999	3,716	13.4%	$752,117	9.6%	$202	520	13.4%	$82,060	13.9%	$158
$40,000 - $49,999	3,480	12.5%	$457,803	5.9%	$132	564	14.5%	$94,115	15.9%	$167
$50,000 and over	0	0.0%	$0	0.0%	N.A.	0	0.0%	$0	0.0%	N.A.
Total	27,802	100.0%	$7,797,680	100.0%	$280	3,889	100.0%	$591,995	100.0%	$152

Source: IDR 2010 individual income tax returns

N.A. = Not Applicable

Table 14. Taxpayers with Tax Liability Reduced to Zero by the Tuition and Textbook Tax Credit, Tax Year 2010

Iowa Adjusted Gross Income	Number of Households	Distribution of Households	Pre-Credit Tax Liability	Amount of Credits Reported	Unused Credits
Less than $20,000	300	61.73%	$16,639	$43,677	$27,038
$20,000 - $29,999	68	13.99%	$11,755	$17,385	$5,630
$30,000 - $39,999	37	7.61%	$5,659	$9,074	$3,415
$40,000 - $49,999	22	4.53%	$4,304	$7,179	$2,875
$50,000 - $59,999	14	2.88%	$1,612	$3,476	$1,864
$60,000 - $69,999	9	1.85%	$1,230	$1,761	$531
$70,000 and over	36	7.41%	$4,033	$6,293	$2,260
Total	486	100.00%	$45,232	$88,845	$43,613

Source: IDR 2010 individual income tax returns

Table 15. Iowa Resident Households with Qualifying Dependents Who Did Not Claim a Tuition and Textbook Tax Credit by Adjusted Gross Income and Tax Liability, Tax Year 2010

Iowa Adjusted Gross Income	Households with Zero Pre-Credit Tax Liability		Households with Positive Pre-Credit Tax Liability	
	Number of Households	Share of Total	Number of Households	Share of Total
$ 20,000 or less	33,081	15.04%	15,820	7.19%
$ 20,000 - $ 29,999	811	0.37%	28,708	13.05%
$ 30,000 - $ 39,999	244	0.11%	23,277	10.58%
$ 40,000 - $ 49,999	90	0.04%	18,361	8.35%
$ 50,000 - $ 59,999	50	0.02%	16,188	7.36%
$ 60,000 - $ 69,999	42	0.02%	14,599	6.64%
$ 70,000 - $ 79,999	19	0.01%	12,789	5.81%
$ 80,000 - $ 89,999	15	0.01%	10,982	4.99%
$ 90,000 - $ 99,999	11	0.00%	9,050	4.11%
$100,000 - $124,999	14	0.01%	14,836	6.74%
$125,000 - $149,999	14	0.01%	7,407	3.37%
$150,000 - $174,999	2	0.00%	4,025	1.83%
$175,000 - $199,999	4	0.00%	2,362	1.07%
$200,000 - $249,999	3	0.00%	2,488	1.13%
$250,000 - $499,999	11	0.00%	3,313	1.51%
$500,000 - $999,999	3	0.00%	1,019	0.46%
$1,000,000 and over	2	0.00%	373	0.17%
Total	34,416	15.64%	185,597	84.36%

Source: IDR 2010 individual income tax returns

Table 16a. Summary Statistics of Iowa's 359 School Districts, Tax Year 2010

School District Characteristic	Mean	Standard Deviation	Minimum	Maximum
Utilization Rate	35.7%	8.8%	8.1%	58.7%
Median Adjusted Gross Income	$33,140	$6,340	$21,694	$64,770
Percent of Students in Free or Reduced-Price Lunch Program	36.4%	12.5%	7.8%	78.6%
Percent of Students Enrolled in Private Schools	2.7%	6.6%	0.0%	47.9%

Table 16b. Explaining Variation in the Utilization Rate of the Tuition and Textbook Tax Credit across School Districts, Tax Year 2010

Independent Variable	Coefficient	t-value
Intercept	21.130	6.85
Median Adjusted Gross Income	0.475	6.78
Percent of Students in Free or Reduced-Price Lunch Program	-0.059	-1.66
Percent of Students Enrolled in Private Schools	0.376	6.05
Adjusted R-Square	0.218	

Sources: IDR 2010 tax returns, Iowa Department of Education Annual Condition of Education Report 2011, Iowa Department of Education Basic Educational Data Survey

Notes: (1) The median is the numerical value separating the higher half of the observations from the lower half.

(2) A t-value with an absolute value greater than 2.0 denotes statistical significance of the corresponing coefficient at the five percent level.

Table 17. Estimated Change in Tax Liability Under Alternative Proposals for the Tuition and Textbook Tax Credit, Tax Year 2010

	Proposal			
	1	2	3	4
Adjusted Gross Income	**Raise Tuition and Textbook Tax Credit to 50%**	**Raise Tuition and Textbook Tax Credit to 75%**	**Raise Tuition and Textbook Tax Credit to 100%**	**Eliminate Tuition and Textbook Tax Credit Raise Dependent Credit to $60**
Less than $20,000	-$68,488	-$118,001	-$155,663	-$808,023
$20,001 to 30,000	-$666,038	-$1,192,731	-$1,595,872	-$1,191,410
$30,001 to 40,000	-$985,958	-$1,832,134	-$2,561,495	-$665,494
$40,001 to 50,000	-$1,153,001	-$2,197,031	-$3,113,787	-$304,154
$50,001 to 60,000	-$1,341,861	-$2,607,253	-$3,760,847	-$68,591
$60,001 to 70,000	-$1,447,947	-$2,861,343	-$4,189,026	$70,842
$70,001 to 80,000	-$1,382,020	-$2,746,790	-$4,067,099	$146,572
$80,001 to 90,000	-$1,272,120	-$2,536,045	-$3,780,155	$213,480
$90,001 to 100,000	-$1,142,285	-$2,278,491	-$3,395,156	$268,216
$100,001 to 125,000	-$2,008,947	-$4,013,173	-$6,003,859	$588,492
$125,001 to 150,000	-$1,051,335	-$2,099,794	-$3,148,167	$349,270
$150,001 to 175,000	-$599,468	-$1,197,212	-$1,791,418	$219,128
$175,001 to 200,000	-$351,918	-$703,191	-$1,055,003	$142,649
$200,001 to 250,000	-$385,656	-$772,527	-$1,158,450	$160,058
$250,001 to 500,000	-$545,121	-$1,089,192	-$1,632,108	$229,903
$500,001 to 1,000,000	-$176,072	-$352,151	-$528,193	$66,458
$1,000,001 or more	-$57,557	-$115,090	-$172,523	-$4,254
Totals	-$14,635,792	-$28,712,149	-$42,108,821	-$586,858

Analysis Using Data from Tax Year 2010
Tax Research and Policy Analysis Section, Iowa Department of Revenue

Table 17 (continued). Estimated Change in Tax Liability Under Alternative Proposals for the Tuition and Textbook Tax Credit, Tax Year 2010

	Proposal			
	5	6	7	8
Adjusted Gross Income	**Reinstate $45,000 Income Limitation**	**Reinstate $45,000 Income Limitation Credit to 100%**	**Credit Precentages of of 50%-25%-15% Based on AGI (1)**	**Raise Tuition and Textbook Tax Credit to 32% (2)**
Less than $20,000	$0	-$80,414	-$34,588	-$20,882
$20,001 to 30,000	$0	-$1,121,583	-$465,563	-$198,353
$30,001 to 40,000	$0	-$2,071,574	-$795,995	-$290,868
$40,001 to 50,000	$520,775	-$671,607	-$447,461	-$332,201
$50,001 to 60,000	$1,151,772	$1,151,905	$0	-$380,144
$60,001 to 70,000	$1,267,545	$1,269,010	$0	-$407,940
$70,001 to 80,000	$1,315,737	$1,315,184	$0	-$387,939
$80,001 to 90,000	$1,263,086	$1,263,302	$0	-$356,768
$90,001 to 100,000	$1,180,655	$1,179,956	$0	-$320,276
$100,001 to 125,000	$2,369,010	$2,369,000	$942,383	-$562,991
$125,001 to 150,000	$1,444,453	$1,444,453	$576,325	-$294,464
$150,001 to 175,000	$809,139	$809,110	$322,826	-$168,107
$175,001 to 200,000	$489,572	$489,600	$195,638	-$98,231
$200,001 to 250,000	$507,841	$507,841	$203,587	-$107,491
$250,001 to 500,000	$672,016	$672,016	$268,888	-$152,701
$500,001 to 1,000,000	$226,901	$226,901	$90,758	-$49,304
$1,000,001 or more	$70,830	$70,830	$28,324	-$16,112
Totals	$13,289,332	$8,823,930	$885,122	-$4,144,772

Analysis Using Data from Tax Year 2010
Tax Research and Policy Analysis Section, Iowa Department of Revenue

(1) The credit percentages by households income are as follows:

Less than $45,001	50%
$45,001 to 100,000	25%
$100,001 or more	15%

(2) Suggested proposal was to eliminate the Sales Tax Holiday in August and raise the Tuition and Textbook Tax Credit to offset the revenue gain.