



# Iowa Department of **REVENUE**

## **Iowa Taxpayers Trust Fund Tax Credit Preliminary Report**

June 6, 2014

### **Summary**

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

This analysis is preliminary as it is based on all tax returns through final review as of May 23, 2014. The TTF Tax Credits can be claimed on tax year 2013 returns filed through October 31, 2014. A final analysis of the credit will be completed in December 2014. The major findings of this preliminary analysis are these:

- A total of 1.0 million households claimed \$78.1 million of TTF Tax Credit. The average claim amount was \$76 per return or \$51 per individual claimant. Overall, around three-fourths of taxpayers (74.3 percent of households or 75.0 percent of eligible individuals) were able to claim the tax credit.
- During the return review process, the Department adjusted the TTF Tax Credit amount on an estimated 4.8 percent of returns because errors were discovered, including increasing the tax credit amount on 2.6 percent of returns and decreasing the tax credit on 2.2 percent (see Table 1).
- Taxpayers with adjusted gross income below \$50,000 accounted for 52.5 percent of the tax credit claims and 42.5 percent of the credit amount claimed (see Table 2). The TTF Tax Credit claim share for those whose income fell below \$20,000 was only one-third, noticeably lower than the share of all taxpayers able to make a claim at 74.3 percent. This reflects that many low-income taxpayers did not have any tax liability against which to claim this nonrefundable tax credit.
- Only 66.8 percent of unmarried taxpayers were able to claim the TTF Tax Credit with an average claim of \$53 per return (see Table 3). For married taxpayers, 83.4 percent of households were able to claim the TTF Tax Credit with an

average TTF claim of \$98 per return or \$50 per individual claimant. Residents claimed 92.4 percent of the TTF Tax Credit amount to-date.

- Besides creating the TTF Tax Credit, another major legislative change to the 2013 Iowa individual income tax code was a doubling of the EITC. Only 43.3 percent of Iowa EITC claimants also claimed the TTF Tax Credit (see Table 4). This reflects that the EITC reduced tax liability of many EITC claimants, making them not able to claim the TTF Tax Credit.

## **I. Tax Year 2013 Taxpayers Trust Fund Tax Credit**

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

The Director of the Iowa Department of Revenue (IDR) is tasked with determining annually the amount of the TTF Tax Credit under 422.11E (3). The credit equals the transfer from the Taxpayers Trust Fund at the end of a fiscal year divided by the number of eligible individuals for the tax year immediately preceding the tax year for which the credit is allowed. Eligible individual is defined as an individual who makes and files an individual income tax return, including each spouse filing a joint return or filing married separate on the same return, all taxpayers filing on a composite return, and a single taxpayer who files a return but is claimed as a dependent on someone else's return.<sup>1</sup> To be an eligible individual, a tax return must be filed timely, defined as returns filed by the end of the six-month extension period which is October 31.<sup>2</sup>

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

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

## **II. Department Review of Taxpayers Trust Fund Tax Credit Claims**

During the Department return review process, TTF claims were adjusted if the amount claimed by taxpayers was incorrect. For all returns through the final review process as of May 23, 2014, the TTF claims reported by taxpayers on electronically filed returns were matched with the outcomes from the review process to estimate the extent of adjustments. The TTF Tax Credit amount claimed by the taxpayer was confirmed to be

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<sup>1</sup> An estate or trust is excluded from being an eligible individual.

<sup>2</sup> For electronic returns that are filed on October 31 but rejected, those filers have an additional 10 days to refile and still be considered timely.

correct on 95.2 percent of returns (see Table 1).<sup>3</sup> The Department adjusted the TTF claims on 4.8 percent of returns: the TTF amount was raised on 2.6 percent of returns and was reduced on 2.2 percent. In particular, the Department calculated TTF claims totaling \$2.1 million for 2.5 percent of returns where taxpayers failed to claim it (one possible reason is lacking knowledge about the tax credit). In addition, the TTF claims on 0.3 percent of returns were set to zero by the Department because the taxpayers were determined to be unable to claim the tax credit.

Hereafter, TTF claims in this report reflect the claims that have been reviewed and adjusted by the Department on returns through final review as of May 23, 2014.<sup>4</sup> Returns through final review means returns that have been received and reviewed by the Department, been revised or corrected if there are any errors identified, and refunds have been issued when applicable.

### **III. Taxpayers Trust Fund Tax Credit Claimant Characteristics**

Out of the 1.4 million of tax returns through final review as of May 23, 2014, 1,030,840 (74.3%) returns included a TTF Tax Credit claim (see Table 2). Of the 2.0 million eligible individuals with returns through final review, 1.5 million (75.0%) were able to claim the TTF Tax Credit. The total claimed by these taxpayers was \$78.1 million, with an average claim of \$76 per return or \$51 per individual claimant.

Taxpayers with low adjusted gross income (AGI) less than \$50,000 accounted for over 50 percent of the claimants and 42.5 percent of the TTF claims (see Table 2). Those with AGI below \$20,000 had the lowest average claim at \$51 per return or \$48 per individual claimant, reflecting some households did not have enough tax liability to claim the full amount of this nonrefundable credit. Only around one-third (31.9%) of taxpayers with income below \$20,000 were able to claim this credit, which is much lower than the share in all of the rest of the income groups. This indicates that a large percentage of low-income taxpayers did not have any tax liability against which to claim this tax credit. It is notable that the average TTF claim per individual claimant for high-income taxpayers with AGI over \$500,000 was only \$49. This can be attributed to nonresidents; compared with residents, nonresidents had a lower average TTF claim per individual claimant and they comprised a higher proportion in high-income groups. The composite return filers had the highest average claim per return at \$239 since many returns included more than two eligible individuals.

In total, 66.8 percent of returns filed by unmarried taxpayers - including single, head of household or qualifying widow(er) - were able to claim the TTF Tax Credit with an

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<sup>3</sup> In all the returns filed through review process as of May 23, 2014, only 7.1 percent of returns were paper returns. For simplicity, they are excluded from the analysis of the adjustments made by the Department.

<sup>4</sup> Returns filed and reviewed before May 23, 2013 comprised 93.8 percent of all the returns filed timely for tax year 2012. Individual taxpayers on those returns filed and reviewed before May 23, 2013 made up of 93.2 percent of all the individual taxpayers for that year. Assuming the filing of returns and review timing for tax year 2013 is similar to 2012, the returns filed as of May 23, 2014 are expected to account for approximately 93 percent of 2013 returns filed timely.

average claim equal to \$53 per return (see Table 3). By contrast, 83.4 percent of married filers claimed the TTF with average TTF claim of \$98 per return or \$50 per individual claimant.

Taxpayers claimed as a dependent on someone else's return accounted for 2.5 percent of the TTF dollars claimed, as only 45.2 percent were able to claim the TTF (see Table 3). Their average claim was only \$43 per return.

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

Nearly all (92.4%) the TTF claims in terms of claim amount were made by Iowa residents. Nonresidents (including composite return filers) accounted for only 7.6 percent of all the claims, as only 70.2 percent were able to make a claim (see Table 3). Based on the county reported by households on the tax returns, 76.4 percent of residents in urban counties claimed the TTF. For residents in nonurban counties, the share was slightly lower at 73.0 percent.

Across the 99 counties, the share of taxpayers able to claim the TTF Tax Credit ranged from 81.8 percent in Dallas County to 62.6 percent in Decatur County (see Figure 1). Only one county (Decatur County) had a claim share in a range of 60-65 percent, 21 counties with 66-70 percent, 58 counties with 71-75 percent, and 19 counties with over 75 percent.

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

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

For tax year 2013, EITC claimants who also claimed the TTF Tax Credit claimed a total of \$6.0 million of TTF and \$20.0 million of EITC (see Table 4). The average TTF claim was \$66 per return or \$49 per individual. Overall, less than half (43.3%) of EITC claimants were also able to claim the TTF Tax Credit. Only 15.0 percent of EITC claimants with AGI lower than \$20,000 were able to claim the TTF Tax Credit.

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

	Number of Returns	Distribution of Returns	Taxpayer Claims		IDR Calculation	
			Total Claims	Average Per Return	Total Claims	Average Per Return
<b>Taxpayer claim matches with IDR calculation</b>	<b>1,226,218</b>	<b>95.2%</b>	<b>\$69,594,186</b>		<b>\$69,594,186</b>	
Both are positive	904,656	70.2%	\$69,594,186	\$77	\$69,594,186	\$77
Both are zero	321,562	25.0%	\$0		\$0	
<b>Taxpayer claim is different from IDR calculation</b>	<b>62,269</b>	<b>4.8%</b>	<b>\$1,468,024</b>		<b>\$3,463,305</b>	
Both are positive						
IDR increased credit amount claimed	1,656	0.1%	\$84,074	\$51	\$120,494	\$73
IDR reduced credit amount claimed	24,789	1.9%	\$1,268,810	\$51	\$1,199,742	\$48
Taxpayer failed to claim and IDR calculated credit	32,817	2.5%	\$0		\$2,143,069	\$65
Taxpayer made a claim and IDR set to zero	3,007	0.3%	\$115,140	\$38	\$0	

Source: Iowa individual income tax return data, tax year 2013 (returns through final review as of May 23, 2014).

Note: Only electronically filed individual income returns (which accounted for 92.9 percent of all returns) are included in this analysis.

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

Adjusted Gross Income	TTF Tax Credit Claimants						Total (Non-Claimants Included)		
	Number of Returns	Distribution of Returns	Total Claims	Distribution of Claims	Number of Individual Claimants	Average Per Return	Average Per Individual Claimant	Number of Returns	Share With Claims
<b>\$20,000 or less</b>	144,998	14.1%	\$7,360,554	9.4%	153,467	\$51	\$48	454,158	31.9%
<b>\$20,001 to 30,000</b>	147,618	14.3%	\$8,828,894	11.3%	175,908	\$60	\$50	174,245	84.7%
<b>\$30,001 to 40,000</b>	139,535	13.5%	\$9,178,918	11.8%	181,322	\$66	\$51	144,655	96.5%
<b>\$40,001 to 50,000</b>	108,786	10.6%	\$7,820,572	10.0%	153,879	\$72	\$51	111,741	97.4%
<b>\$50,001 to 60,000</b>	86,281	8.4%	\$6,863,316	8.8%	134,285	\$80	\$51	88,279	97.7%
<b>\$60,001 to 70,000</b>	71,969	7.0%	\$6,230,149	8.0%	121,417	\$87	\$51	73,531	97.9%
<b>\$70,001 to 80,000</b>	61,733	6.0%	\$5,647,423	7.2%	109,608	\$91	\$52	62,979	98.0%
<b>\$80,001 to 90,000</b>	51,321	5.0%	\$4,861,259	6.2%	94,246	\$95	\$52	52,294	98.1%
<b>\$90,001 to 100,000</b>	42,329	4.1%	\$4,093,106	5.2%	79,322	\$97	\$52	43,115	98.2%
<b>\$100,001 to 125,000</b>	69,887	6.8%	\$6,824,807	8.7%	132,679	\$98	\$51	71,317	98.0%
<b>\$125,001 to 150,000</b>	35,944	3.5%	\$3,517,510	4.5%	68,700	\$98	\$51	36,870	97.5%
<b>\$150,001 to 175,000</b>	20,304	2.0%	\$1,974,562	2.5%	38,719	\$97	\$51	20,944	96.9%
<b>\$175,001 to 200,000</b>	12,219	1.2%	\$1,176,893	1.5%	23,234	\$96	\$51	12,655	96.6%
<b>\$200,001 to 250,000</b>	13,284	1.3%	\$1,273,137	1.6%	25,316	\$96	\$50	13,933	95.3%
<b>\$250,001 to 500,000</b>	16,964	1.6%	\$1,595,840	2.0%	32,110	\$94	\$50	18,144	93.5%
<b>\$500,001 to 1,000,000</b>	5,009	0.5%	\$467,012	0.6%	9,502	\$93	\$49	5,544	90.3%
<b>\$1,000,001 or more</b>	1,871	0.2%	\$172,721	0.2%	3,522	\$92	\$49	2,191	85.4%
<b>Composite Returns</b>	788	0.1%	\$188,249	0.2%	3,589	\$239	\$52	1,094	72.0%
<b>Total</b>	<b>1,030,840</b>	<b>100.0%</b>	<b>\$78,074,922</b>	<b>100.0%</b>	<b>1,540,825</b>	<b>\$76</b>	<b>\$51</b>	<b>1,387,689</b>	<b>74.3%</b>

Source: Iowa individual income tax return data, tax year 2013 (returns through final review as of May 23, 2014).

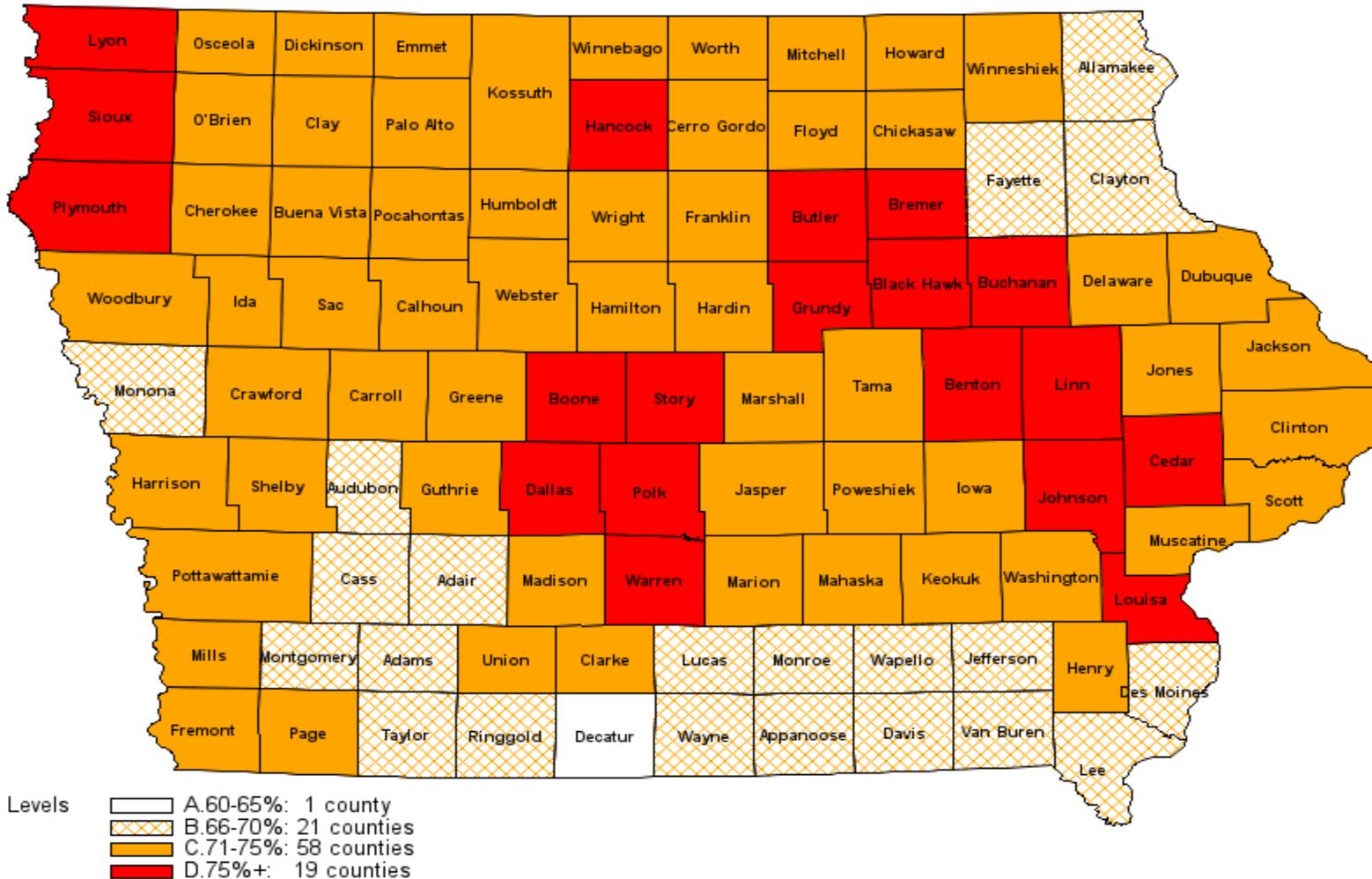
**Table 3. Iowa Taxpayers Trust Fund Tax Credit Claimants Characteristics, Tax Year 2013**

Characteristics	TTF Tax Credit Claimants						Total (Non-Claimants Included)		
	Number of Returns	Distribution of Returns	Total Claims	Distribution of Claims	Number of Individual Claimants	Average Per Return	Average Per Individual Claimant	Number of Returns	Share With Claims
<b>Filing Status</b>									
Single	428,627	41.6%	\$22,466,792	28.8%	428,627	\$52	\$52	620,473	69.1%
Married joint	118,207	11.5%	\$12,324,110	15.8%	236,414	\$104	\$52	199,849	59.1%
Married separate on combined returns	388,977	37.8%	\$38,094,849	48.9%	777,954	\$98	\$49	408,663	95.2%
Married separate on separate returns	12,480	1.2%	\$660,615	0.8%	12,480	\$53	\$53	14,448	86.4%
Head of household	81,274	7.9%	\$4,314,304	5.5%	81,274	\$53	\$53	142,469	57.0%
Qualifying widow(er)	487	0.0%	\$26,003	0.0%	487	\$53	\$53	693	70.3%
<b>Marital Status</b>									
Unmarried	510,388	49.5%	\$26,807,099	34.4%	510,388	\$53	\$53	763,635	66.8%
Married	519,664	50.5%	\$51,079,574	65.6%	1,026,848	\$98	\$50	622,960	83.4%
<b>Claimed as a Dependent or not</b>									
Not claimed as a dependent on someone else's return	985,568	95.7%	\$75,974,773	97.5%	1,492,752	\$77	\$51	1,288,107	76.5%
Claimed as a dependent on someone else's return	44,484	4.3%	\$1,911,900	2.5%	44,484	\$43	\$43	98,488	45.2%
<b>Number of Dependents</b>									
None	682,152	66.2%	\$47,384,935	60.8%	936,192	\$69	\$51	944,014	72.3%
One or over	347,900	33.8%	\$30,501,738	39.2%	601,044	\$88	\$51	442,581	78.6%
<b>Age of Primary Taxpayer (Only Returns Having Age Information)</b>									
19 or under	23,049	2.2%	\$1,013,048	1.3%	23,148	\$44	\$44	60,331	38.2%
20 - 29	216,434	21.1%	\$13,094,840	16.9%	254,382	\$61	\$51	298,093	72.6%
30 - 39	185,130	18.0%	\$14,551,182	18.7%	283,770	\$79	\$51	226,589	81.7%
40 - 49	185,138	18.0%	\$14,926,922	19.2%	291,436	\$81	\$51	221,899	83.4%
50 - 59	207,469	20.2%	\$17,151,724	22.1%	334,701	\$83	\$51	232,509	89.2%
60 - 69	135,747	13.2%	\$11,296,900	14.5%	228,123	\$83	\$50	179,983	75.4%
70 - 79	48,526	4.7%	\$3,842,303	4.9%	81,195	\$79	\$47	97,853	49.6%
80 or over	25,610	2.5%	\$1,785,418	2.3%	35,809	\$70	\$50	62,665	40.9%
<b>Resident Status (Composite Returns Included) *</b>									
Resident	943,773	91.6%	\$72,151,455	92.4%	1,404,368	\$76	\$51	1,263,732	74.7%
Nonresident	87,067	8.4%	\$5,923,467	7.6%	132,868	\$68	\$45	123,957	70.2%
<b>County of Residence (Residents Only)</b>									
Nonurban counties	475,088	46.1%	\$37,140,232	47.7%	722,667	\$78	\$51	650,461	73.0%
Urban counties	468,685	45.5%	\$35,011,223	45.0%	681,701	\$75	\$51	613,271	76.4%

Source: Iowa individual income tax return data, tax year 2013 (returns through final review as of May 23, 2014).

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

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



Source: Iowa individual income tax return data, tax year 2013 (returns through final review as of May 23, 2014).

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

Adjusted Gross Income	ETC Claimants Who Claimed TTF Tax Credit					ETC Claimants Who Did Not Claim TTF Tax Credit				Total ETC Claimants	
	Number of Returns	Total TTF	Number of Individual Claimants	Average TTF Per Return	Total ETC	Average ETC Per Return	Number of Returns	Total ETC	Average ETC Per Return	Number of Returns	Share with TTF Claims
<b>\$20,000 or less</b>	18,131	\$956,832	19,594	\$53	\$874,743	\$48	102,484	\$33,768,071	\$329	120,615	15.0%
<b>\$20,001 to 30,000</b>	28,933	\$1,685,586	35,506	\$58	\$10,479,853	\$362	14,984	\$8,516,330	\$568	43,917	65.9%
<b>\$30,001 to 40,000</b>	31,302	\$2,214,028	45,071	\$71	\$7,224,924	\$231	953	\$278,046	\$292	32,255	97.0%
<b>\$40,001 to 50,000</b>	11,516	\$1,045,756	21,368	\$91	\$1,391,210	\$121	129	\$11,274	\$87	12,142	94.8%
<b>\$50,001 to 60,000</b>	497	\$49,670	994	\$100	\$12,599	\$25	*	*	*	*	*
<b>Total</b>	<b>90,379</b>	<b>\$5,951,872</b>	<b>122,533</b>	<b>\$66</b>	<b>\$19,983,329</b>	<b>\$221</b>	<b>118,550</b>	<b>\$42,573,721</b>	<b>\$359</b>	<b>208,929</b>	<b>43.3%</b>

Source: Iowa individual income tax return data, tax year 2013 (returns through final review as of May 23, 2014).

\* indicates small group with fewer than five observations. To protect taxpayers' privacy, that small group is combined into the group with AGI \$40,001-\$50,000.