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Legal Background Briefings are prepared and updated periodically by the Legal Services Division of the Iowa Legislative Services Agency, a nonpartisan agency providing legislative drafting and research services to the committees and members of the Iowa General Assembly. The briefings provide background information regarding a particular area of law. Although a briefing may identify issues for consideration by the General Assembly, nothing contained in a briefing should be interpreted as advocating a particular course of action. The reader is cautioned against using information contained in a briefing to draw conclusions as to the legality of a particular behavior or set of circumstances.

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Legal Background Briefing on ...

Child Care Assistance

Overview

This briefing provides background information relating to child care assistance available in Iowa including state and federal funds and programs available to assist families with the costs associated with accessing child care. References to the Iowa Code are to the 2022 Code. References to the Iowa Administrative Code (IAC) are current through November 1, 2021.

Background

The Child Care Assistance (CCA) Program is administered by the Department of Human Services (DHS) and was established in 2000.¹ The CCA Program subsidizes child care costs for low-income families with working parents, parents gaining work skills, parents going to school, and parents unable to care for children for a limited time due to physical or mental illness. Child care is also subsidized for children in need of protective services to prevent or alleviate child abuse or neglect, and for children in foster care home settings. In addition to paying for child care, state and federal funds support the regulation of child care providers and quality improvement activities of providers.²

Population estimates as of December 31, 2019, indicate that Iowa has a total population of 3,166,015 with 238,569 children ages 0 to 5 years, 160,341 children ages 6 through 9, and 125,252 children ages 10 through 12.³ About 202,698 children under age 15 are in paid child care and approximately 56.6 percent of children birth through age 5 in Iowa are in nonparental care for at least 10 hours

per week.⁴ As of July 2020, 75 percent of Iowa children under the age of 6 are from families with both parents working.⁵

The statewide average annual cost of child care provided for an infant in a child care center is \$10,131 and in a family child care home is \$7,070⁶ which is approximately 15 percent and 10 percent, respectively, of Iowa's median family income.⁷ Child care for two children, an infant and a four-year-old, costs an average of \$19,011, which, for a typical family in Iowa, would account for 28 percent of a family's income.⁸

Overview of Public Support for Child Care

Both federal and state governments assist families with child care costs. Publicly derived support for child care expenses is provided through a variety of means, ranging from tax credit measures to direct subsidies. This briefing addresses only the direct public financial assistance that is primarily provided for child care purposes.

The most significant sources of direct public support for child care in Iowa are the following:

1. The state CCA Program (Iowa Code section 237A.13), utilizing federal block grant funding from the Child Care Development Fund (CCDF)⁹ of the Temporary Assistance for Needy Families (TANF) block grant funding,¹⁰ and state funding.
2. The School Ready Children Grant Program.¹¹
3. Federal and state child and dependent care tax credits and deductions (Iowa Code section 422.12C and various federal provisions).¹²

State Child Care Assistance Program

A. Federal Funding

To receive CCDF funding, states are required to submit a three-year plan describing the state's CCA Program and all services available to eligible families.

There are three types of CCDF funds: mandatory, discretionary, and matching. Each type of fund is made available to the states through quarterly grant awards based on annual CCDF allocations.

Mandatory funds are funds that are automatically appropriated from the federal government to states each year at a rate determined by section 418 of the Social Security Act.¹³ Discretionary funds are subject to federal appropriations processes, so the amount of discretionary funds varies from year to year.¹⁴ Discretionary funds are allocated to a state based on the state's share of children who are younger than five years of age, the state's share of children receiving a free or reduced-rate lunch, and the state's per capita income averaged over three years.¹⁵ Mandatory and discretionary funds do not have a state maintenance of effort (MOE) requirement.¹⁶

In order for a state to receive matching funds, four requirements must be met. First, the state must provide its own matching funds for child care assistance at or above the current Medicaid match rate; second, the state must obligate all the matching funds, both federal and its own, in the federal fiscal year the federal funds were awarded; third, the state must obligate all of its mandatory funds in the federal fiscal year in which the mandatory funds were awarded; and fourth, the state must expend all its MOE funds in the federal fiscal year the federal matching funds were awarded. State matching

funds must be expended to match federal matching funds based on the applicable federal medical assistance percentage (FMAP) rate for the current fiscal year. The amount of matching funds available in a given year is whatever remains of the total amount of mandatory funds allowed by the Social Security Act after technical assistance, research, tribal mandatory funds, and state mandatory funds have been distributed. Matching funds are allocated to states based on a state's proportion of the national total of children under the age of 13.¹⁷ Any unobligated federal matching funds will revert back to the United States and will be reallocated to other states.¹⁸

B. Consolidated Funding

Iowa consolidates federal and state funding streams to make public support available to low-income families and families of children with special needs through the CCA Program. The program served an average of 22,451 children per month in state fiscal year 2019-2020.¹⁹

For state fiscal year 2019-2020, the state investment in the CCA Program was \$40.8 million and, because the state met its funding requirements, the federal investment was \$133.4 million with \$19.2 million received by the state from CARES Act funds.²⁰

C. Child Care Provider Reimbursement Rate

Iowa's CCA Program reimburses child care providers for using half-day rates of a provider's normal rate or the maximum state reimbursement rate, whichever is less. If a child care provider does not charge a half-day rate, the rate is established by dividing the provider's full-day rate by two. If the provider only charges hourly rates, the rate is established

by multiplying the provider's hourly rate by four-and-a-half.²¹

Child care provider rates are based on the age of the child, the type of provider giving the child care, whether the child cared for has special needs, and the provider's rating on the Quality Rating System (QRS).²² Rates were last increased on November 1, 2021.²³

Once every two to three years, the state conducts a market rate survey of child care provider rates. As the name suggests, a market rate survey is a collection and analysis of prices and fees charged by child care providers for their services.²⁴ House File 891, passed by the 2021 Iowa General Assembly, increased the rates of child care providers in the QRS for basic care an average of \$1.67 for licensed centers, \$0.64 for certain child development homes, and \$4.52 for child care homes. Additionally, rates for special needs child care increased an average of \$0.97 for certain child development homes and \$6.77 for child care homes.²⁵ Increases such as these are made, in part, to provide an incentive for nonregistered child care homes to become a licensed or registered child care provider, as licensed or registered child care providers would receive such increases.

D. Child Care Assistance Program Eligibility Requirements

To obtain assistance from the state CCA Program, a parent or guardian must meet the income eligibility requirements, which as of 2021 means an applicant family's nonexempt gross monthly income cannot exceed 145 percent of the applicable federal poverty level for the family's size for children needing basic care; 200 percent of the applicable federal poverty level for the family's size for children needing special needs care; or 85 percent of Iowa's median family income if that figure is less than 145

percent of the applicable federal poverty level for the family's size if the child requires basic care or 200 percent of the applicable federal poverty level for the family's size if the child requires special needs care. A child can qualify for child care through age 13, unless the child has special needs, in which case child care can be provided to a child up to age 19.²⁶

Persons who automatically qualify for the CCA Program without regard to income include all of the following:

- A person participating in activities approved under the PROMISE JOBS Program.
- A person participating in the family investment program (FIP), or whose earned income was taken into account in determining the needs of a FIP recipient, if there is a need for child care services.
- Children receiving protective child care services.
- Children receiving certain child care services provided by DHS when ordered by a court to do so.²⁷

Each parent in a family who qualifies for the CCA Program must work an average of at least 28 hours per week, attend an approved full-time education or training program, work and attend a training program for a combined average minimum of 28 hours per week, or be actively looking for work.²⁸

Child care provided while a parent participates in postsecondary education or vocational training is limited to a maximum of 24 months per lifetime. This does not include education or training received while participating in a PROMISE JOBS-approved Program. Child care provided while a parent is looking for work is limited to 90 consecutive calendar days.²⁹

A family deemed eligible to participate in the CCA Program may receive child care assistance for a period of at least 12 months from the date DHS deemed the family eligible. Upon the expiration of the 12-month period, the family must reapply for benefits or lose eligibility.³⁰

Currently, a family participating in the CCA Program is eligible to continue participating in the CCA Program until the family's income rises above the lesser of 225 percent of the federal poverty level applicable to the family's size for children needing basic care or special-needs care or 85 percent of Iowa's median family income.³¹ However, House File 302, passed by the 2021 General Assembly, requires DHS to change the CCA Program income cutoff rules by July 1, 2022, so that families will continue to be eligible for the CCA Program until the family's adjusted gross monthly income is 250 percent of the federal poverty level or 275 percent of the federal poverty level if the family has a child with special needs. Additionally, a family with a gross income exceeding 225 percent of the federal poverty level, or 250 percent of the federal poverty level for a family of a child with special needs, will be required to pay an increasing portion of the child care cost as the family's income increases until the family exits the CCA Program or the family's income falls below 225 percent or 250 percent, respectively.³²

E. Applying for Benefits

To apply for assistance from the CCA Program, a parent or guardian of a child may access the DHS child care client portal to fill out and submit an application,³³ or print off a copy of the application form and submit it to the DHS centralized child unit in Des Moines.³⁴ An overview of eligibility requirements, an eligibility calculator, and a tool to locate a child care provider

participating in the CCA Program is also available on the child care client portal.

Early Childhood Iowa Grants

This funding is distributed in the form of grants to early childhood Iowa areas throughout the state.³⁵ Grants are used to enhance the quality and capacity of child care in a community in order to help parents obtain or retain employment.³⁶

For the state fiscal year 2021-2022, the amount appropriated from the General Fund for Early Childhood Iowa grants was \$5.85 million.³⁷

School Ready Grants

The State of Iowa appropriates funding from state general funds to support children ages 0 through 5 by providing grants for the following:

- Preschool support for low-income families.
- Family support and parent education.
- Quality improvements.
- Other early care, health, and education services.

Thirty-five percent of total grant funds is allocated to local Early Childhood Iowa (ECI) boards based on the percentage of Iowa children aged 0 through 5 living in the area the board serves. An additional 45 percent of the grant funds are allocated to local ECI boards based on the percentage of Iowa children aged 0 through 5 in families with income at or below 185 percent of the federal poverty level living in the geographic area the board serves. The final 20 percent of the grant funds are distributed to all local boards equally.³⁸ For the state fiscal year 2021-2022, the state appropriated \$23,206,799 for school ready grants.³⁹

Tax Preferences Related to Child Care

The following tax credits related to child care are available to qualifying taxpayers with dependent children for tax year 2020:

- Child and dependent care tax credit.⁴⁰
- Early childhood development tax credit.⁴¹

A. Federal Child and Dependent Care Tax Credit

Although this tax credit applies to dependent care as well as child care expenses, this briefing only addresses the child care aspects of the tax credit. The amount of the tax credit varies depending upon family income, and the percentage of family income used to calculate the tax credit declines as incomes rise. The tax credit reduces the amount of tax due but is not refundable if the amount of the tax credit exceeds the amount of tax due.⁴²

Child care costs are considered a work-related expense, so each parent must have earned income, been a full-time student, or been physically or mentally incapable of taking care of themselves in order to obtain this tax credit. The taxpayer must also be able to provide the care provider's name, address, and taxpayer identification number on the taxpayer's tax returns. The limit on the amount of work-related expense that can be used to calculate the federal tax credit is \$3,000 for one child and \$6,000 for two or more children.⁴³

B. Iowa Child and Dependent Care Tax Credit

As the name implies, this tax credit is Iowa's state version of the federal child and dependent care tax credit. This tax credit is refundable to the extent the amount of the tax credit exceeds the taxpayer's income tax liability, less other applicable

income tax credits. Only taxpayers with an adjusted gross income of less than \$45,000 may claim this tax credit.⁴⁴

The tax credit is a percentage of the amount allowed for federal income tax purposes. The minimum tax credit allowed is 30 percent of the federally allowed amount and the maximum tax credit allowed is 75 percent of the federally allowed amount. The amount of the tax credit decreases as a taxpayer's adjusted gross income increases.⁴⁵

C. Early Childhood Development Tax Credit

Iowa allows taxpayers to claim a tax credit equal to 25 percent of the first \$1,000 of expenses paid to others for early childhood development care for a child between three and five years of age. This credit is refundable to the extent the amount of the credit exceeds the taxpayer's income tax liability, less other applicable income tax credits. Only taxpayers with a net income of less than \$45,000 may claim this credit. A taxpayer cannot claim this tax credit if they choose to receive the state child and dependent care tax credit.⁴⁶

¹ 2000 Acts, ch 1067, §15 (SF 2314) (codified at Iowa Code §237A.13).

² Fiscal Services Division, Legislative Services Agency, Child Care Assistance Budget Unit Brief — FY 2022, available at www.legis.iowa.gov/docs/publications/FT/1209802.pdf.

³ Iowa Child Care Resource & Referral, State of Iowa — July 2020, available at iowaccrr.org/resources/files/Data/FY20/FY20%20State%20Iowa.pdf.

⁴ Committee for Economic Development of The Conference Board, Child Care in State Economies: 2019 Update, available at www.ced.org/assets/reports/childcareimpact/factsheets/revised/iowa%20Fact%20Sheet%201312019.pdf.

⁵ Iowa Child Care Resource & Referral, State of Iowa — July 2020, available at iowaccrr.org/resources/files/Data/FY20/FY20%20State%20Iowa.pdf.

⁶ Committee for Economic Development of The Conference Board, Child Care in State Economies: 2019 Update, available at www.ced.org/assets/reports/childcareimpact/factsheets/revised/iowa%20Fact%20Sheet%201312019.pdf.

⁷ Iowa Child Care Resource & Referral, available at iowaccrr.org/resources/files/Data/FY20/FY20%20State%20Iowa.pdf.

⁸ Economic Policy Institute, The Cost of Child Care in Iowa, (last updated October 2020), available at www.epi.org/child-care-costs-in-the-united-states/#/IA.

⁹ The Child Care and Development Block Grant (CCDBG) Act of 2014 (Pub. L. No. 113-186) was signed into law following its passage in the 113th Congress. The CCDBG Act, as amended (42 U.S.C. §9858 *et seq.*, along with Section 418 of the Social Security Act (42 U.S.C. 618), authorizes the Child Care and Development Fund (CCDF), which is the primary federal funding source devoted to providing low-income families who are working or participating in education or training activities with help paying for child care and improving the quality of child care for all children.

¹⁰ TANF was created in the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, (Pub. L. No. 104-193, 110 Stat. 2105).

¹¹ Iowa Code §256I.9.

¹² 42 U.S.C. §618 (2018).

¹³ U.S. Dept. of Health and Human Services, Early Childhood Training and Technical Assistance System, CCDF Overview, available at childcareta.acf.hhs.gov/ccdf-fundamentals/ccdf-funding-overview.

¹⁴ New America, Education Policy, Mandatory and Discretionary Spending, available at www.newamerica.org/education-policy/topics/federal-education-legislation-budget/federal-education-budget/federal-budget-process/mandatory-and-discretionary-spending/#:~:text=Discretionary%20spending%20is%20spending%20that,covers%20in%20an%20appropriations%20bill.&text=Mandatory%20spending%20accounts%20for%20about%20two%2Dthirds%20of%20all%20federal%20spending.

¹⁵ U.S. Dept. of Health and Human Services, Early Childhood Training and Technical Assistance System, Allocation Formulas, available at childcareta.acf.hhs.gov/ccdf-fundamentals/allocation-formulas.

¹⁶ In order to receive federal funds, states must spend some of their own dollars on programs for needy

families, known as the “maintenance of effort” (MOE) requirement. The federal TANF block grant and state MOE contributions are the primary sources of funding for state TANF programs. The basic TANF block grant has been set at \$16.5 billion each year since 1996. Center on Budget and Policy Priorities, Policy Basics: Temporary Assistance for Needy Families (updated March 31, 2021) *available at* www.cbpp.org/research/family-income-support/temporary-assistance-for-needy-families.

¹⁷ Allocation Formulas, *available at* childcareta.acf.hhs.gov/ccdf-fundamentals/allocation-formulas.

¹⁸ 42 U.S.C. §618(2)(D)(i) (2018).

¹⁹ Email from Julie McCauley, Executive Assistant to Iowa Dept. of Human Services Director, Iowa Dept. of Human Services (June 3, 2021) (on file with author).

²⁰ Id.

²¹ Iowa Admin. Code 441-170.4(7)(a).

²² Iowa Admin. Code 441-170.4(7)(a). The Quality Rating System (QRS) sets minimum standards a child care provider must meet in order to obtain a certain quality rating. Providers meeting the lowest standards of the system are given a rating of QRS 1, and providers meeting the highest standards are given a rating of QRS 5. Providers may also opt out of the system, in which case they are listed as “No QRS.” See Iowa Admin. Code 441-170.4(7)(a).

²³ IAB Vol. XLIV, No. 5 (9/8/21) p. 713, ARC 5891C.

²⁴ Early Childhood National Centers, National Center on Subsidy Innovation and Accountability, Market Rate Surveys, p. 1, *available at* childcareta.acf.hhs.gov/sites/default/files/public/planning-market_rate_surveys_brief_1.pdf.

²⁵ 2021 Iowa Acts, ch. 182, §31 (11); IAB Vol. XLIV, No. 5 (9/8/21) p. 713, ARC 5891C.

²⁶ Iowa Admin. Code 441-170.2(1)(a)(1); Iowa Admin. Code 441-170.2(2)(a).

²⁷ Iowa Admin. Code 441-170.2(1)(b).

²⁸ Iowa Admin. Code 441-170.2(2)(b). Exceptions to the working requirements are if the child requires protective needs care, the parent is incapacitated, the parent is participating in the PROMISE JOBS Program, the parent is participating in the family investment program, or if the parent needs to cease work activities for less than three months due to illness, the need to care for a family member, maternity leave, family medical leave act situations, or participation in a treatment or rehabilitation program. See Iowa Admin. Code 441-170.2(2)(b).

²⁹ Iowa Admin. Code 441-170.2(2)(b)(5).

³⁰ Iowa Admin. Code 441-170.3(1)(d).

³¹ Iowa Admin. Code 441-170.2(1)(a)(2).

³² 2021 Iowa Acts, ch. 178 (HF 302), §1 (codified at Iowa Code §237A.14).

³³ Iowa Department of Human Services, Child Care Client Portal, *available at* ccmis.dhs.state.ia.us/clientportal/default.aspx.

³⁴ Iowa Department of Human Services, Child Care Assistance, *available at* dhs.iowa.gov/child-care.

³⁵ Early childhood Iowa areas are geographic areas within existing county boundaries that have agreed to collaborate with each other for the purposes of improving the quality of life for young children and their families by focusing on healthy children, children’s preparedness to succeed in school, safe and supportive communities, secure and nurturing families, and secure and nurturing early learning environments. See Iowa Code §2561.2.

³⁶ Early Childhood Iowa, Early Childhood Iowa Area Funding, *available at* earlychildhood.iowa.gov/document/early-childhood-iowa-area-funding (last visited November 5, 2021).

³⁷ 2021 Iowa Acts, ch. 182, §17(4).

³⁸ Early Childhood Iowa, Early Childhood Iowa Area Funding, *available at* earlychildhood.iowa.gov/document/early-childhood-iowa-area-funding.

³⁹ 2021 Iowa Acts, ch. 170 (HF 868), §8.

⁴⁰ 26 U.S.C. §21 (2018); Iowa Admin. Code 701-42.15.

⁴¹ Iowa Admin. Code 701-42.31.

⁴² Internal Revenue Service, Publication 503 (202), Child and Dependent Care Expenses, January 28, 2021, *available at* www.irs.gov/publications/p503.

⁴³ Internal Revenue Service, Publication 503 (2020), Child and Dependent Care Expenses, January 28, 2021, *available at* www.irs.gov/publications/p503.

⁴⁴ Iowa Admin. Code 701-42.15.

⁴⁵ Iowa Admin. Code 701-42.15(1).

⁴⁶ Iowa Admin. Code 701-42.31.