Updated for 2025 Tax Season

Understanding State and Federal Taxes

January 2026

UpLift The Central Iowa Basic Income Pilot

Iowa State University Extension and Outreach

IMPORTANT CHANGE FOR 2025 TAX SEASON!

No More Paper Refund Checks

Beginning September 30, 2025, the Internal Revenue Service (IRS) will phase out paper checks to taxpayers who are due a refund. Only a limited number of exceptions will allow paper methods for either paying taxes or receiving refunds. All taxpayers are urged to open bank or credit union accounts so that refunds can be direct deposited. Direct deposit is safer and more efficient than paper checks, so although this change may require some adjustments for consumers, it is ultimately a beneficial change for most. The direct deposits will only be made to accounts listing the name of the taxpayer as owner; in the case of couples filing jointly, the account must be owned by at least one of the taxpayers.

Alternatively, taxpayers who use prepaid bank cards instead of bank accounts may have refunds direct deposited if those cards allow direct deposit or bank transfers. For security purposes, the routing and account numbers are not found on the card itself. Taxpayers will need to find that information prior to tax preparation by going to the card issuer's website or app or by contacting customer service. The taxpayer will need to provide the routing and account numbers at their tax appointment.

As of this writing, the IRS will still accept paper check payments for taxes owed, although electronic payments are preferred for efficiency.

Consumers seeking to open new bank or credit union accounts are encouraged to seek accounts with low or no fees; either savings or checking accounts may be used. Local financial institutions are often easiest to work with if they offer low-fee accounts; the resources below can assist consumers in seeking other accounts with consumer-friendly terms.

BankOn Iowa

Bank on Iowa lists Iowa banks who offer accounts meeting the following consumer-friendly criteria:

- **Safe: no overdrafts or non-sufficient funds fees**
- **Low cost: $5 or less per month with no unpredictable fees**
- **Functional: certified accounts allow free deposits, free withdrawals, and free bill payments**

For more information on Bank On Certified Accounts visit: bankoniowa.org/accounts

Beyond Iowa, find banks or credit unions at:
Bank On: joinbankon.org/accounts
Get Banked: www.fdic.gov/getbanked
MyCreditUnion.gov: mycreditunion.gov

2025 Tax Deduction Changes

No Tax on Tips

Effective for tax years 2025 through 2028, employees and self-employed individuals may deduct qualified tips received in occupations the IRS has identified as customarily and regularly receiving tips on or before December 31, 2024, provided the tips are reported on a Form W-2, Form 1099, or other specified statement furnished to the individual or reported directly by the individual on Form 4137. Taxpayers will need a statement from their employer verifying the relevant amounts.

- "Qualified tips" are voluntary cash or charged tips received from customers or through tip sharing.
- Maximum annual deduction is $25,000; for self-employed, deduction may not exceed individual's net income (without regard to this deduction) from the trade or business in which the tips were earned.
- Deduction phases out for taxpayers with modified adjusted gross income over $150,000 ($300,000 for joint filers).

No Tax on Overtime

New deduction: Effective for tax years 2025 through 2028, individuals who receive qualified overtime compensation may deduct the pay that exceeds their regular rate of pay (such as the "half" portion of "time-and-a-half" compensation) that is required by the Fair Labor Standards Act (FLSA) and reported on a Form W-2, Form 1099, or other specified statement furnished to the individual. Taxpayers will need a statement from their employer verifying the relevant amounts.

- Maximum annual deduction is $12,500 ($25,000 for joint filers).
- Deduction phases out for taxpayers with modified adjusted gross income over $150,000 ($300,000 for joint filers).

Deduction for Seniors

New deduction: Effective for tax years 2025 through 2028, individuals who are age 65 and older may claim an additional deduction of $6,000. This new deduction is in addition to the standard deduction for seniors OR itemized deductions under existing law.

- The $6,000 senior deduction is per eligible individual (or $12,000 total for a married couple where both spouses qualify).
- Deduction phases out for taxpayers with modified adjusted gross income over $75,000 ($150,000 for joint filers).

Source: IRS, 2025

No Tax on Car Loan Interest

New deduction: Effective for tax years 2025 through 2028, individuals may deduct interest paid on a loan used to purchase a qualified vehicle, provided the vehicle is purchased for personal use and meets other eligibility criteria. (Lease payments do not qualify.)

- Maximum annual deduction is $10,000.
- Deduction phases out for taxpayers with modified adjusted gross income over $100,000 ($200,000 for joint filers).

Qualified interest: To qualify for the deduction, the interest must be paid on a loan that is:

- Originated after December 31, 2024
- Used to purchase a vehicle originally used by the taxpayer (used vehicles do not qualify)
- For a personal use vehicle (not for business or commercial use)
- Secured by a lien on the vehicle

If a qualifying vehicle loan is later refinanced, interest paid on the refinanced amount is generally eligible for the deduction.

Qualified vehicle: A qualified vehicle is a car, minivan, van, SUV, pick-up truck or motorcycle, with a gross vehicle weight rating of less than 14,000 pounds, and that has undergone final assembly in the United States.

To determine if a vehicle had final assembly in the U.S., check one of these:

- The information label attached to the vehicle on a dealer's premises
- The vehicle identification number (VIN)
- The National Highway Traffic Safety Administration (NHTSA) VIN Decoder

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This document is intended to be an educational tool to help inform readers about state and federal tax systems. Guidelines and rules are subject to change. Some components of our tax systems may have specific nuances that are not discussed in this publication. For more information, please use the resource links provided throughout this document.

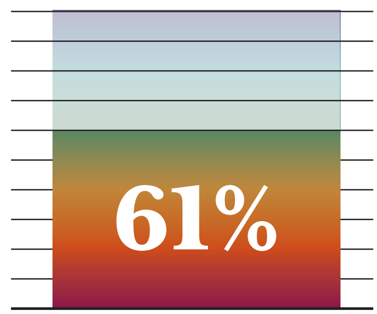
Introduction

UpLift has partnered with Iowa State University Extension to create “Understanding State and Federal Taxes” to bring more information to help the public navigate state and federal taxes. Within this document, you will find several resources to help you prepare to file your taxes and deepen your knowledge about tax deductions, credits, rates, and how they impact families’ financial well-being. Links to helpful resources, including the Internal Revenue Service (IRS), can be found throughout the document.

Please keep in mind that this document is intended to be an educational tool to help inform readers about basic concepts of personal income taxation. It is for reference only and not legal or tax advice. Eligibility and restrictions for specified free tax preparation services, tax deductions, credits, and other concepts are subject to change and may have specific nuances not discussed in this publication. For more information, please use the resource links provided.

Taxes as a tool for promoting economic success

Taxes and tax policy are central to our financial lives and play into our decisions about money management, employment, healthcare, and wealth building, like home ownership, investing, and retirement savings. Even people’s decisions about where to live are influenced by taxes and tax policy.



Americans scored 61% on a recent tax literacy survey

Most households can benefit from learning more about the basics of taxation and tax planning, as well as preparing and filing taxes. Over 61% of Americans stated they did not know or were not sure of basic tax concepts related to income tax filing (Tax Foundation, 2024). Most people didn’t understand concepts like tax brackets, tax rates, tax credits, tax deductions, or understand why getting a tax refund may not be advantageous. This basic tax knowledge is necessary for filing income taxes, and important for making financial decisions that help households reach their financial goals and promote their financial security. The economic success of households with limited resources can be promoted by raising awareness of free tax preparation and filing, tax credits, and other available supports.

DEFINITIONS

ADJUSTED GROSS INCOME (AGI):

Total income minus deductions, or 'adjustments' to income that a taxpayer is eligible to take. (IRS, 2024f)

TAX CREDIT:

A dollar-for-dollar amount taxpayers claim on their tax return to reduce the income tax they owe. Eligible taxpayers can use tax credits to reduce their tax bill and potentially increase their refund. (IRS, 2023)

TAX DEDUCTION:

A tax deduction reduces the amount of a taxpayer's income that's subject to tax, generally reducing the amount of tax the individual may have to pay. Most taxpayers have a choice of taking a standard deduction or itemized deduction. (IRS, 2024a)

FILING STATUS:

Based on an individual's marital status on the last day of the calendar year. Filing statuses include single, married filing jointly, married filing separately, head of household, and qualifying surviving spouse. (IRS, 2024b)

STANDARD DEDUCTION:

A specific dollar amount, determined by filing status, that reduces the amount of taxable income. The standard deduction consists of the sum of the basic standard deduction and any additional standard deduction amounts for age and/or blindness. (IRS, 2024a)

ITEMIZED DEDUCTION:

Allows individuals to subtract designated expenses from their taxable income and can be claimed in place of the standard deduction. Itemized deductions include those for state and local taxes, charitable contributions, and mortgage interest. (Tax Foundation, n.d.-a)

MARGINAL TAX RATE:

The amount of additional tax paid for every additional dollar earned as income. (Tax Foundation, n.d.-b)

PROGRESSIVE TAX:

A tax that takes a larger percentage of income from high-income groups than from low-income groups. (IRS, n.d.-b)

REGRESSIVE TAX:

A tax that takes a larger percentage of income from low-income groups than from high-income groups. (IRS, n.d.-b)

PROPORTIONAL TAX:

A tax that takes the same percentage of income from all income groups. (IRS, n.d.-b)

REFUNDABLE TAX CREDIT:

A tax credit that is subtracted from the income taxes a taxpayer owes. If a refundable tax credit exceeds the amount of income taxes owed, the difference is paid as a refund to the taxpayer. (Tax Policy Center, 2024b)

NONREFUNDABLE TAX CREDIT:

A tax credit that is subtracted from the income taxes a taxpayer owes. If a nonrefundable tax credit exceeds the amount of income taxes owed, the excess is lost and not paid back to the taxpayer. (Tax Policy Center, 2024b)

TAX WITHHOLDING:

For employees, withholding is the amount of federal income tax withheld from their paycheck. The amount of income tax the employer withholds from regular pay depends on two things: the amount earned and the information given to the employer on Form W–4.

TAX REFUND:

Taxpayers receive a refund when their total tax payments are greater than the total tax. Refunds are received from the government. Taxpayers receive refunds from the government as checks or as direct deposits to their bank accounts. Taxpayers must pay an amount due to the government when the total tax is greater than their total tax payments.

TAX DEDUCTION VS. TAX CREDIT

TAX DEDUCTION: an amount that is subtracted from a taxpayer's income to reduce the amount of taxable income

TAX CREDIT: reduces the amount of income tax owed to the government

Iowa's Volunteer Income Tax Assistance (VITA)

The Internal Revenue Service's (IRS) Volunteer Income Tax Assistance (VITA) program offers free basic tax return preparation to qualified individuals, families, and small businesses filing a Schedule C. VITA is available to people who generally make $69,000 or less, and provides specialized assistance for persons with disabilities, adults 60 years of age and older, and limited English-speaking taxpayers.

- Community volunteers are trained and IRS-certified to provide accurate and trustworthy tax preparation.
- VITA provides free income tax preparation for underserved taxpayers through partner organizations.

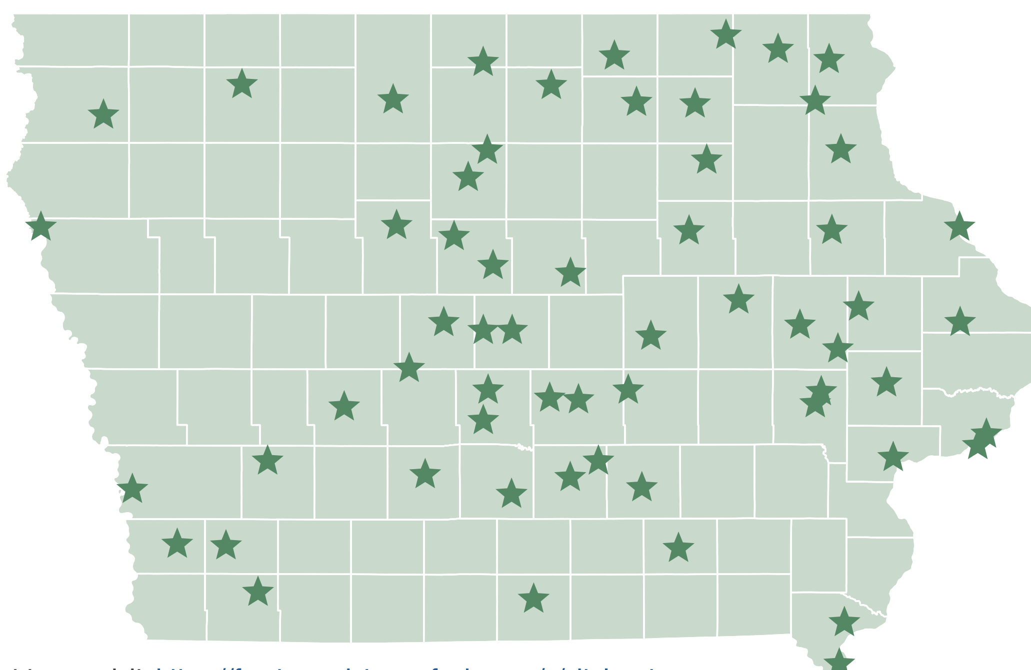
Among eligible Iowa taxpayers, there are low participation rates in the VITA program. Just over half of the federal income tax returns filed by Iowans in 2021 reported an Adjusted Gross Income (AGI) of $50,000 or less, yet less than one percent of these taxpayers utilized the VITA program. Over half (53%) of these taxpayers used a paid tax preparer to file (IRS, 2021b).

It is possible that a proportion of these tax payers with an AGI less than $50,000 did not qualify for the VITA program. For example, about 8% of lower AGI taxpayers, almost 60,000, were ineligible for the VITA program because they had digital currency or cryptocurrency, which is considered out of scope for VITA services.

WHO VITA SUPPORTS:

- Low-to-moderate income persons, generally with an annual household income of less than $69,000
- Persons with disabilities
- Adults 60 years of age and older
- Limited English speakers
- Military and veterans
- Students

VITA PARTNERS: In Person Sites



To find a site closest to you visit: https://freetaxassistance.for.irs.gov/s/sitelocator

VITA PARTNERS: In Person Sites

Call 211 to find a site near you.

- Allamakee County ISU Extension and Outreach
- Ames Public Library
- Ankeny Service Center Site
- Ascentra Credit Union
- Belmond City Hall
- Black Hawk County ISU Extension and Outreach
- Boone DMACC
- Boone Public Library
- Bremer County ISU Extension and Outreach
- Cass County ISU Extension and Outreach
- Center for Siouxland
- Central College
- Chickasaw County ISU Extension and Outreach
- Clarke County Extension - Osceola
- Clay and Kossuth ISU Extension and Outreach
- Clayton County ISU Extension and Outreach
- Cornell College
- Cresco Public Library
- Dallas County Extension
- Dubuque HaCap
- EMBARC
- Evelyn K. Davis Center
- Family Housing Services, Inc. - CB Habitat for Humanity
- Family Housing Services, Inc. - CB Library
- Friendly House
- Ft. Dodge - IA Central Community College
- Hamilton County ISU Extension and Outreach
- Hamilton County - Ellsworth Public Library
- Hawkeye Community College Adult Learning Center
- Hiawatha Public Library
- Horizons
- Iowa Center for Economic Success
- Iowa City Public Library
- Iowa State University - Ivy College of Business
- IOWAWORKS
- Jasper County - Colfax Public Library
- Jones County Volunteer Center
- Kossuth County Extension
- Ladd Library
- Luther College
- Lutheran Services in Iowa (LSI)
- Madison County ISU Extension and Outreach
- Manchester HaCap
- Maquoketa HaCap
- Marion Public Library
- Martin Luther King, Jr. Center
- Mills County Extension
- Montgomery County Extension
- Muscatine Cooperative
- Nevada Public Library
- NICAO - Charles City
- NICAO - Family Resource Center
- NIACO - Forest City
- North Central Iowa EITC Coalition: Cerro Gordo, Mitchell, and Floyd County ISU Extension and Outreach
- Page County Extension
- Polk County River Place
- Postville Public Library
- Poweshiek County Extension
- RSVP of Jasper County and Jasper County ISU Extension and Outreach
- Sioux County Extension - Orange City
- St. Andrews Church
- St. Mark's United Methodist Church
- Story City Public Library
- Tama County ISU Extension and Outreach
- United Way of Central Iowa
- United Way of East Central Iowa
- United Way of East Central Iowa - Benton County
- United Way of the Great River Region - Fort Madison
- United Way of the Great River Region - Keokuk
- United Way of Mahaska County
- United Way of Southeast Iowa
- University of Northern Iowa
- Valley Community Center
- Warren County Extension - Indianola
- Wayne County ISU Extension and Outreach
- Western Illinois University Quad Cities
- Winneshiek County ISU Extension and Outreach
- Wright County ISU Extension and Outreach
- YSS Ames

How to find tax support and additional resources

- **VITA Locations**
  - **Tax Services** - Iowa Center for Economic Success: theiowacenter.org/taxservices
  - **Get Free Tax Prep Help:** irs.treasury.gov/freetaxprep

Iowa Center for Economic Success is an economic development non-profit organization that coordinates funding and resource-sharing for most VITA sites in Iowa.

- **If you have received a letter from the IRS:** Home - Taxpayer Advocate Service (TAS) - Taxpayer Advocate Service: www.taxpayeradvocate.irs.gov

- **If your Adjusted Gross Income (AGI) is less than $84,000 and you want to file your own taxes using IRS Free File:** Do your taxes for free - IRS: www.irs.gov/filing/irs-free-file-do-your-taxes-for-free

- **To learn about your taxpayer rights and the tax collection process**, review these IRS resources: www.irs.gov/businesses/small-businesses-self-employed/collection-process-for-taxpayers-filing-and-or-paying-late

- **To access account information, your federal tax records, payments, and more,** create an online account: www.irs.gov/payments/online-account-for-individuals

- **To find online resources and forms for the State of Iowa,** visit tax.iowa.gov

- **To receive assistance from a tax specialist from the Iowa Department of Revenue:** Email idr@iowa.gov or call 515-281-3114 or 800-367-3388

- **Estimate the federal income tax you want your employer to withold from your paycheck**: irs.gov/individuals/tax-withholding-estimator

- **Still have tax questions?** Contact The Iowa Center for Economic Success at TheIowaCenter.org or 515-283-0940

How to plan and prepare to **file your taxes**

☐ **BEGINNING OF JANUARY:**
Make a list of any income and all your jobs for the year; make sure your photo ID is valid, and you have a Social Security card for everyone who will be on your tax return. No Social Security card? It is free to replace your card. Get a new one here: www.ssa.gov/number-card/replace-card

☐ **MID-JANUARY:**
If you have a small business, make sure your records are all in order. Include such items as a mileage log and other business expenses.

☐ **JANUARY 15 OR AFTER:**
If your annual household income is less than $69,000, find a VITA site near you (page 5) to have your taxes prepared at no cost. Make an appointment at theiowacenter.org/taxservices (in the Des Moines area), or call 211.

☐ **JANUARY 31:**
If you have not recieved your W2 or 1099 by February, contact your employer to request the appropriate document. You must claim all income earned in the year.

☐ **FEBRUARY - APRIL:**
Decide how you will prepare and file your taxes. If you will use VITA, use this list to make sure you have all of the documents you need for your appointment: theiowacenter.org/wp-content/uploads/2025/12/What-to-Bring.pdf

☐ **AFTER FILING YOUR RETURN:**
Once you've filed, create a folder to keep your tax filing documents, and get organized to make filing next year's taxes less stressful.

- See the IRS's suggestions: www.irs.gov/pub/irs-pdf/p5348a.pdf
- Check your refund status, if applicable:
  - **Federal:** Where's My Refund - IRS: www.irs.gov/wheres-my-refund
  - **State:** Where's My Refund - Department of Revenue: revenue.iowa.gov/taxes/wheres-my-refund

☐ **APRIL 10:**
Do you owe taxes? If you did not have the amount owed directly taken from a bank account, be sure to make your payment. Learn more about payment options and payment plans:

- **Federal:** www.irs.gov/payments
- **State:** revenue.iowa.gov/taxes/make-payment

☐ **MAY:**
If you have a refund coming, check your bank account to make sure that both a federal and state refund are deposited. This can happen in as little time as two weeks for a federal refund or up to two months for a state refund.

Why taxes exist and what they do for you and your community

Taxes provide revenue for essential services

The IRS is a U.S. federal entity responsible for enforcing federal tax codes, which include the obligation of individuals and businesses to pay and file taxes. In Iowa, the Iowa Department of Revenue oversees compliance with the tax code and collection of taxes. Individual income tax represents the greatest source of tax revenue for the federal government and the state of Iowa.

Federal, state, and local governments collect taxes directly from citizens and businesses through income tax, and indirectly through sales, property, inheritance, alcohol, tobacco, and other taxes. Income tax and payroll taxes, such as Social Security and Medicare, are withheld from our paychecks by employers and sent to the federal government. Income tax paid by individuals is based on all of their earnings from sources such as salaries, interest, dividends, gambling winnings, and self-employment income.

The U.S. federal income tax system is a **progressive system** set up so that the amount of tax paid is based on an individual's salary, with the amount owed increasing as income increases. Iowa uses a flat tax rate of 3.8%, also known as a **proportional tax,** that is the same for everyone. As of January 1, 2023, Iowa no longer taxes retirement income.

In addition to strategies that generate revenue, tax revenue supports the government's operating budget, which is earmarked to support the public, goods and services that benefit society.

Employers use Form W-4 Employee's Withholding Certificate to determine the amount of federal income tax to withhold. Use this IRS Tool to estimate your withholding and check whether the correct amount is being withheld: [www.irs.gov/individuals/tax-withholding-estimator.](https://www.irs.gov/individuals/tax-withholding-estimator)

FEDERAL INCOME TAXES HELP PAY FOR:

- Health insurance programs, such as Medicaid, Medicare, Children's Health Insurance Program (CHIP), and subsidies for the Affordable Care Act (ACA)
- Social Security
- National defense and security, veterans, and foreign affairs
- Public services such as education, infrastructure, research, and more
- Social safety net programs, such as Supplemental Nutrition Assistance Program (SNAP) aka Food Stamps, Earned Income Tax Credit, and unemployment insurance

Source: Center on Budget and Policy Priorities, 2024

IOWA STATE AND LOCAL INCOME TAXES HELP PAY FOR:

- Programs to assist low-income families
- K-12 education
- Higher education
- Health care and hospitals including program such as Medicaid and Hawk-I
- Transportation expenses such as highways and roads
- Prisons
- Law enforcement personnel such as police officers
- Parks

Source: Urban Institute, 2024

PROGRESSIVE VS. REGRESSIVE TAX SYSTEMS

PROGRESSIVE

While the U.S. has a mix of regressive, proportional, and progressive tax systems, the federal income tax system is currently a **progressive** system. This means households with higher incomes pay a higher percentage in taxes, whereas households with lower incomes have a lower tax burden (IRS, n.d.-b). In general, a portion of income is not subject to federal income tax because it is offset by deductions and exemptions. The income that is taxed is taxed progressively, as shown in Figure 3 (page 14). As earnings increase, income is taxed in layers at higher rates. Although the highest tax rate is 37 percent, it applies only to the portion of income that falls into the highest tax bracket, not to all income.

PROPORTIONATE

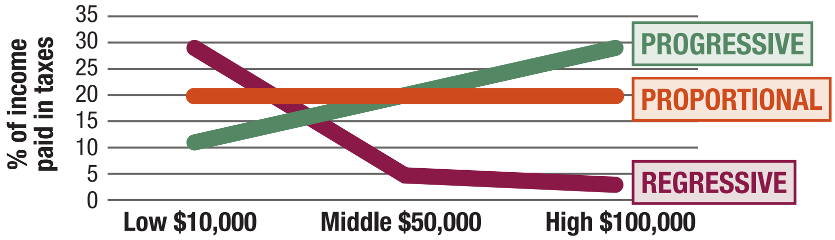
A **proportionate** tax is one in which everyone, regardless of income, pays the same percentage of their income in taxes (IRS, n.d.-b).

REGRESSIVE

By contrast, a **regressive** tax is one in which lower-income households pay a higher tax rate relative to their incomes (IRS, n.d.-b). Sales taxes are generally considered regressive because lower-income households spend a larger share of their income on taxable purchases like food, clothing, and household goods, while higher income households are able to save more of their income, which is not subject to sales tax.

FIGURE 1

HOW DIFFERENT TAX SYSTEMS AFFECT INCOME GROUPS



Source: IRS Understanding Taxes. Theme 3. Fairness in Taxes. Worksheet: Comparing Regressive, Progressive, and Proportional Taxes Solutions, n.d-a

FIGURE 2

FEDERAL TAXABLE INCOME RATES MINUS STANDARD DEDUCTION

2025 TAX RATE	SINGLE INDIVIDUALS AND HEAD OF HOUSEHOLD*	MARRIED COUPLES FILING JOINTLY*
37%	>$640,600	>$768,700
35%	> $256,225	> $512,450
32%	> $201,775	> $403,550
24%	> $105,700	> $211,400
22%	> $50,400	> $100,800
12%	> $12,400	> $24,800
10%	≤ $12,400	≤ $24,800

** Taxable income is an individual's total income minus the standard deduction.*

For single people, standard deduction in 2026 is $16,100. The first $16,100 of income is tax-free.

For Heads of Household, standard deduction in 2026 is $24,150. Their first $24,150 of income is tax-free.

For Married Couples Filing Jointly, the standard deduction in 2026 is $32,200. Their first $32,200 of income is tax-free.

Source: IRS, 2025b

FIGURE 3

2026 FEDERAL GROSS INCOME TAX BRACKETS FOR A SINGLE INDIVIDUAL

Tax deductions and tax credits

By claiming tax credits and deductions, qualifying taxpayers can lower the taxes they owe on their income. A tax deduction is an amount that is subtracted from a taxpayer's income to reduce the amount of taxable income. A tax credit reduces the amount of income tax owed to the government.

Tax law, including deductions, credits, and definition of taxable income, can change from one year to the next. It is, therefore, important to consult current tax resources when filing a tax return or doing any tax planning. IRS Publication 17, Your Federal Income Tax, is a good starting point; near the beginning it always includes a section about what's new this year: www.irs.gov/pub/irs-pdf/p17.pdf

Tax Deductions

There are two types of tax deductions that taxpayers can choose from: **standard** and **itemized**. Taxpayers typically choose the larger deduction amount, either standard or itemized, to subtract from their income to lower their taxable income. Adjusted gross income (AGI) is an individual's total taxable income, before standard or itemized deductions are applied. The standard deduction amount is determined by filing status and is indexed for inflation. The standard deduction almost doubled with the passage of the Tax Cuts and Jobs Act (TCJA) in 2017 (Tax Policy Center, 2024c).

Nationally, approximately 90% of taxpayers claim the standard deduction, an increase from 70% in 2017, before the TCJA. Roughly ten percent of taxpayers claimed itemized deductions. Itemized deductions allow taxpayers to reduce their taxable income by listing eligible expenses. Eligible deductions include state and local taxes, mortgage interest, charitable contributions, medical and dental expenses, and more. The TCJA eliminated or placed new limits on some deductions. For example, job-related expenses can not be deducted through 2025, and deductions for state and local taxes have a new limit of $10,000. However, H.R. 1 temporarily (for 2025-2029) raised the limitation on the deduction for state and local income taxes to $40,000 in 2025, with an adjustment for inflation in future years.

> **Many low-income households have income that falls below the standard deduction, so they typically do not pay federal income tax. They may also owe little or no tax because of refundable tax credits offsetting any taxes they owe.**
>
> **Tax credits can provide financial support to households by reducing their tax liability or providing refunds. For many low-income households, tax time provides the largest single infusion of cash during the year (Tax Policy Center, 2024a).**

	2026 STANDARD DEDUCTION
FILING AS SINGLE TAXPAYER OR MARRIED INDIVIDUALS FILING SEPARATELY	$16,100
MARRIED COUPLES FILING JOINTLY	$32,200
FILING AS HEAD OF HOUSEHOLD	$24,150

Source: IRS, 2025b

An additional deduction is available to taxpayers and spouses who are blind or age 65 or older. The standard deduction may be reduced if the taxpayer can be claimed as a dependent on another taxpayer's return (IRS, 2024d).

The Interactive Tax Assistant on IRS.gov can be used to answer the question How Much Is My Standard Deduction? www.irs.gov/help/ita/how-much-is-my-standard-deduction

Nonrefundable Tax Credits

A **tax credit** is a dollar-for-dollar amount taxpayers can claim on their tax return to reduce the income tax they owe. Eligible taxpayers can use tax credits to lower their tax bill, and in some cases, increase their refund. Originally, tax credits were designed only to reduce a person's tax liability and were considered "nonrefundable," meaning they could not result in a refund if the credit exceeded the amount of tax owed.

A **nonrefundable tax credit** is one that is deducted from an individual's tax liability until the tax owed is $0. Any portion of the remaining credit above $0 cannot be refunded. Most tax credits are nonrefundable.

> **EXAMPLE:**
> **Sharon is single and has one child. She earns $19,000 per year. She contributed $480 to her 401(k) plan at work and would be eligible for a $240 tax credit because of that retirement savings, but her income is low enough that she owes $0 tax. Therefore, she doesn't benefit from the tax credit.**

Refundable Tax Credits

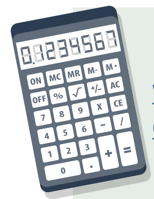
About 50 years ago, Congress created a new type of tax credit, which could help even those Americans who owed little or no tax, a "refundable" tax credit.

A **refundable tax credit** is a credit that a taxpayer can receive as a payment, even when they do not owe any taxes.

Available Tax Credits

Taxpayers may be eligible for a variety of tax credits. The IRS maintains a full list of credits and deductions for taxpayers to review. The IRS also offers an Interactive Tax Assistance Tool to help answer taxpayer questions about tax credits. Visit IRS.gov/credits-and-deductions-for-individuals or IRS.gov/help/ita for more information.

Though not a comprehensive list, the following are some tax credits potentially available to households.



IRS list of credits and deductions:
www.irs.gov/credits-and-deductions-for-individuals

IRS Interactive Tax Assistant Tool includes Tax Credit Questions:
www.irs.gov/help/ita

Earned Income Tax Credit

The Earned Income Tax Credit (EITC) was the first refundable tax credit and was designed to bolster the income of low and moderate income working taxpayers and to encourage nonworking parents to enter the workforce (Congressional Research Service, 2018). In Iowa, 170,000 workers and families received about $406 million in federal EITC benefits in 2022, with an average EITC amount of $2,392.

Generally, the EITC benefit amount depends on the family's earnings, marital status, and number of children (Congressional Research Service, 2023).

The EITC credit is calculated as a percentage of earned income and increases as the taxpayer earns more until it reaches its maximum credit amount. The credit then remains at that maximum level over a range of higher earned income amounts before it gradually phases out.

The EITC is designed to increase as a taxpayer's earned income rises from zero to a modest level. The EITC credit rewards work by increasing as people earn/work more. As people's incomes continue to increase beyond a certain point, however, the amount of credit they receive gradually diminishes or phases out.

A taxpayer does not need to owe income taxes or have a child to qualify for the EITC benefit. However, the amount of the credit increases with the number of qualifying children, with the maximum EITC amount available for families with three or more children.

The EITC has historically received bi-partisan support. In 2020, the Government Accountability Office analysis of federal programs flagged the EITC due to the high percentage of improper EITC payments made in 2024, about 27% (U.S. Government Accountability Office, 2025). Taxpayers flagged by the IRS for making a fraudulent EITC claim could be deemed ineligible for the credit in future tax filing years.

Nationally and in Iowa, about eight in ten workers who qualify for the EITC receive this tax credit, with almost 20% not claiming it (IRS, 2024c). The IRS reports that EITC nonparticipants tend to be workers who are "living in rural areas, self-employed, receiving certain disability pensions or have children with disabilities, without a qualifying child, not proficient in English, grandparents raising their grandchildren, or recently divorced, unemployed, or experienced other changes to their marital, financial or parental status" (Congressional Research Service, 2023).

Missed tax credits are one reason everyone is encouraged to file a tax return, even if income tax has not been withheld. To explore whether you qualify for the EITC, use the interactive tool from the IRS called the EITC Qualification Assistant at https://www.irs.gov/credits-deductions/individuals/earned-income-tax-credit/use-the-eitc-assistant.

In addition to the federal EITC, families in Iowa may qualify for the state EITC. Iowa is one of 31 states that offer the EITC. It is calculated as 15% of the federal EITC claimed on a tax return. It is also a refundable credit.

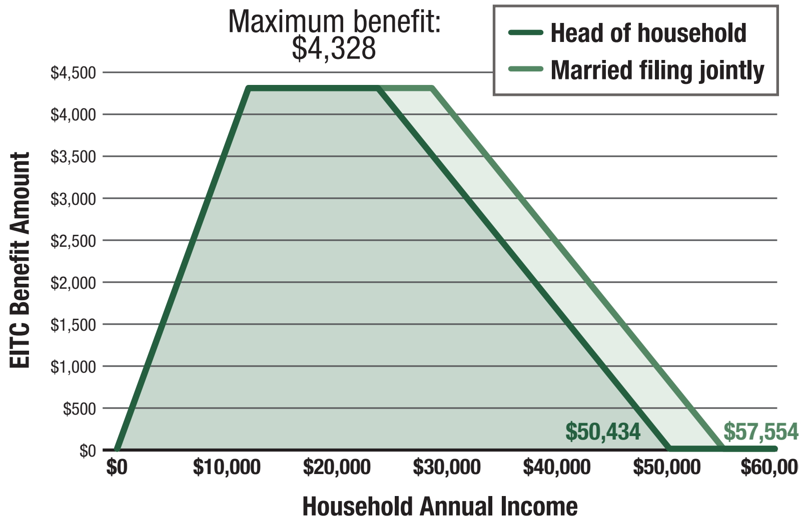
EITC eligibility is determined by several factors, including the requirement of:

- Having earned income
- Have investment income below the limit
- Being a U.S. resident all year
- Having a valid Social Security number
- Filing a federal income tax return
- Meeting filing status rules

The maximum income limit for eligibility rises with the number of qualifying children in a household, up to 3 children, with higher limits for for married couples.

Source: IRS, 2024e

EARNED INCOME TAX CREDIT FOR HOUSEHOLDS WITH ONE CHILD, 2025



Note: Assumes all income is from earnings (as opposed to investments, for example).

Source: Internal Revenue Service Earned income and Earned Income Tax Credit (EITC) tables, 2025

BENEFITS OF THE EITC FOR INDIVIDUALS AND FAMILIES

- The EITC has been in place for over 40 years, and research provides strong evidence of its effectiveness. The EITC is considered the most effective anti-poverty tool, reducing poverty among working families with children by as much as 20%. The EITC does more to lift people above the poverty level than any other public benefit program.
- As the design was intended, the EITC encourages non-working parents, particularly single mothers, to enter the workforce. Research also shows some evidence that it reduces reliance on other public benefit programs.
- Tax credits like the EITC have been shown to positively affect health outcomes in communities, including reducing infant mortality and preterm labor and improving birthweight and maternal health.
- The EITC has been positively associated with academic outcomes by indirectly helping increase test scores in school and improving graduation rates and college enrollment.
- The EITC encourages and rewards work. The EITC is only available to people who receive income from work, so it is a great incentive for people to enter the workforce.
- The EITC stimulates the local economy as taxpayers spend their refund locally.

Source: Congressional Research Service, 2018

4.4 million

Census data shows that in 2024 the EITC lifted about 4.4 million people above the poverty line nationally, including nearly 2.3 million children, based on the Supplemental Poverty Measure.

**Estimates are based on the latest pre-pandemic year with reliable data because temporary relief available during the pandemic influences these figures substantially.*

Source: Center on Budget and Policy Priorities, 2025b.

Child Tax Credit

The Child Tax Credit (CTC) is a partially-refundable credit that can reduce a taxpayer's tax liability or increase their tax refund. It is available to taxpayers with a qualifying dependent. To qualify, their child must:

- Be a U.S. resident under the age of 17.
- Have a Social Security Number.
- Be claimed as a dependent on the taxpayer's tax return.

The credit is currently worth up to $2,200 per qualifying child. Up to $1,700 per child is refundable through the Additional Child Tax Credit.

How it helps the community:

- Reduces poverty, especially when combined with the EITC.
- Stimulates the local economy as taxpayers spend their refund locally.

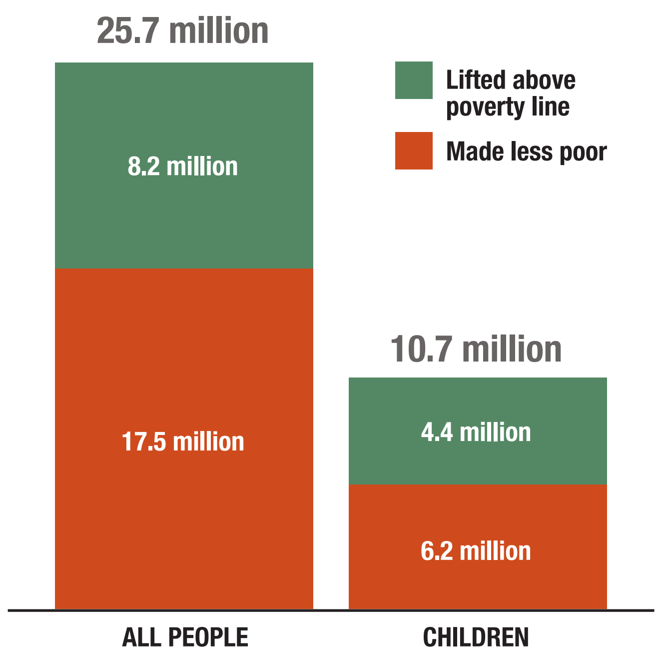
~360,000

CTC payments totaling over **$953,920**, supporting over **600,000** children, were made in Iowa in 2021

Source: IRS, 2021a

EARNED INCOME TAX CREDIT AND CHILD TAX CREDIT HAVE POWERFUL ANTI-POVERTY IMPACT

Millions of people were lifted above the poverty line or made less poor (using Supplemental Poverty Measure) due to the EITC and Child Tax Credit.



Note: These figures use the Supplemental Poverty Measure. Unlike the Census Bureau's Official Poverty Measure, the SPM counts the effect of non-cash government programs like housing and food assistance, and tax credits.

Source: CBPP analysis of Census Bureau March 2025 Current Population Survey.

Child and Dependent Care Tax Credit

The Child and Dependent Care Tax Credit (CDCTC) is a nonrefundable credit available to taxpayers who pay someone to care for their child, spouse or other dependent so that they can work, be a full-time student or look for a job. The care must be necessary and is for children under the age of 13 or a dependent who is physically or mentally unable to care for themself. When filing, the taxpayer must report the name and tax ID number of the care provider, along with the amount paid for each dependent. Any costs paid with funds from a flexible spending plan are not allowed. The maximum eligible cost of care is $3,000 for one child or dependent and $6,000 for two or more.

How it helps the community:

- Enables parents and caregivers to work.
- Reduces tax liability.

Education Credits

The **American Opportunity Tax Credit (AOTC)** and **Lifetime Learning Credit (LLC)** are federal tax credits for post-secondary education. The AOTC is partially refundable and the LLC is nonrefundable. The AOTC is available four tax years per eligible student. The LLC is available for all years of post-secondary education and courses taken to acquire or improve job skills.

It is usually more beneficial to have a parent claim the child as a dependent rather than the student claiming it for themself. A tax preparer can help determine which way maximizes the credit.

However, parents should not claim a child as a dependent unless they are truly providing more than half of the child's support.

The AOTC is worth up to $2,500 per eligible student, and 40% of the credit is refundable, which benefits lower income taxpayers when zero taxes are owed.

How it helps the community:

- Encourages higher education by offsetting some of the costs.
- College graduates earn more money, experience less unemployment, and participate more in civic life.

The Iowa Tuition and Textbook Tax Credit is a nonrefundable credit available to individual taxpayers who have one or more dependents receiving private instruction, as defined in Iowa Code section 422.12(1), or attending grades K-12 in an accredited Iowa school.

The credit is equal to 25% of the first $2,000 of eligible education expenses for each dependent.

Eligible expenses include tuition, textbooks, computers, school supplies, driver's education fees, annual school fees, rental of musical instruments, athletic shoes, required class supplies, transportation fees and uniforms (Iowa Department of Revenue, n.d.). Check the Iowa Expanded Instructions for details about eligible and ineligible expenses here: revenue.iowa.gov/taxes/tax-guidance/individual-income-tax/1040-expanded-instructions/tuition-textbook-credit-k-12

How it helps the community:

- Expands education choices for families.
- Supports student participation in extracurricular activities.

Retirement Savers' Credit

The Retirement Savers' Credit is a nonrefundable federal credit available to lower-income taxpayers who make voluntary contributions to a qualified retirement account, such as an IRA or an employer plan like a 401(k) account, whether Roth or Traditional.

Depending on income level, the credit may be worth 10% to 50% of the first $2,000 contributed to a qualifying retirement account.

How it helps the community:

- Encourages retirement savings, especially among lower-income workers.
- Improves financial security of individuals in later life.
- Enhances the long-term financial well-being of the community.

COMMON QUESTIONS *tax preparers get asked*

If I am paid cash or through Venmo for my job do I need to report it on my tax return?

ANSWER: All income over $400 in a calendar year, including cash and Venmo payments, must, by law, be reported on your income tax return. It is also of benefit to the taxpayer to report it so that they can get Social Security credit for working.

Can I take a home office deduction since I work from home?

ANSWER: If you work for a company, you cannot take a home office deduction. If you are self-employed, you may be able to take home office space as an expense.

Is my tax preparer responsible for any mistakes on my return?

ANSWER: The taxpayer is ultimately responsible for their return. A tax preparer can only use the information provided.

Do students have to pay taxes?

ANSWER: While a working student who is a dependent of someone else and has limited income may not need to file taxes, it is generally in the student's best interest to file a tax return. If their employer withheld taxes they are likely due a refund.

Can I claim a pet as a dependent?

ANSWER: While there can be many costs associated with owning a pet, they are not human and therefore cannot be claimed as a dependent.

Is the most secure way to file a tax return to send a paper copy by mail?

ANSWER: Filing a tax return electronically is the most secure way to file a return and to get your refund to you usually more quickly.

Why is my refund smaller than my friend's refund? We make the same amount of money.

ANSWER: The size of your tax refund is affected by two factors: 1) the amount of tax withheld from your pay during the year minus the amount of tax you ended up owing on your tax return; and 2) any refundable tax credits you may be eligible for. If your friend got a larger refund, it may be because they had more tax withheld from their paychecks OR because they were eligible for tax credits that increased the size of their refund.

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