

## Nebraska's School Readiness Tax Credit

*Why improving LB889 matters to our public investment in quality in early care and learning*

### Overview

In 2017, Nebraska became the second state in the nation—and the first in the Midwest—to offer up to \$5 million annually in tiered tax credits as a quality improvement incentive for child care providers and individual early childhood employees. The tiered credits were made possible through the School Readiness Tax Credit Act (LB889), and correspond to the quality ratings of programs as well as the professional development levels of individual providers.

#### **About Program Ratings in Step Up to Quality**

*Step Up to Quality* evaluates child care programs based on teacher-child interactions, professional development of staff, curriculum and other factors.

A Step 3 rating or higher corresponds to levels of program quality known to result in positive developmental outcomes in young children.

#### **What are childhood professional classifications?**

Classification levels for early childhood educators correspond to an individual's educational credentials, certifications, endorsements, professional development training hours and work experience.

### How it works for child care owners/operators

Individuals and businesses who own child care programs may claim a non-refundable tax credit if they are ranked at Step 3 or above in *Step Up to Quality*, Nebraska's early childhood five-step quality rating and improvement system. The credit is calculated by multiplying the number of subsidy-eligible children participating in program by a specific dollar amount corresponding to the program's quality rating.

- **Step 3 Programs: \$250 per subsidy-eligible child**
- **Step 4 Programs: \$500 per subsidy-eligible child**
- **Step 5 Programs: \$750 per subsidy-eligible child**

### How it works for individual professionals

Individual early childhood professionals may claim a refundable tax credit if they have a profile in the Nebraska Early Childhood Professional Record System *and* have been employed by an eligible child care program for at least six months. The amount of the individual credit corresponds to the employee's professional classification.

- **Level 1 Classification: \$510**
- **Level 2 Classification: \$765**
- **Level 3 Classification: \$1,275**
- **Level 4 Classification: \$1,530**

The non-refundable and refundable tax credits are available for the 2017-2022 tax years. The total amount for both types of credit shall not exceed \$5 million per tax year.

## **The problem: LB889 excludes certain providers and individual professionals**

Although the School Readiness Tax Credit Act authorizes the state to commit up to \$5 million per year to incentivize quality, the existing statutory language inadvertently excludes key early childhood programs and professionals. This was not the intent of the legislation when it was originally introduced.

### **▶ S-Corps are unable to benefit from the credit**

According to current statute, child care providers that are classified as an S-Corp are not eligible for the nonrefundable credit. S-Corps, also known as pass-through entities, do not have tax liability in Nebraska and so do not file income tax returns that would give them access to the tax credits. Instead, the credits would have to pass directly through to the owners of the program, but there is no provision for this in the existing language of the statute.

### **▶ Self-employed providers are also left out**

According to current statute, child care providers who are self-employed are not eligible for the refundable credit. This unfairly affects many of the family home providers who are critically important to child care infrastructure throughout the state, especially in rural Nebraska.

## **The Solution: LB266**

LB266 revises and clarifies current statutory language so self-employed professionals and S-Corps benefit from the refundable and non-refundable tax credits respectively.

**In effect, this legislation enables the School Readiness Tax Credit Act to accomplish what it was originally intended to do—encourage more early educators and programs to strive for quality in the important service they provide to Nebraska’s youngest children and families.**

First Five Nebraska looks forward to working with lawmakers to ensure this important legislation advances in the second session of the 106th Nebraska Legislature.



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