



LB531: Nebraska Child Care Contribution Tax Credit Act

POLICY BRIEF | FEBRUARY 2021

Elizabeth Everett | Deputy Director | First Five Nebraska

Access to affordable, high-quality child care generates economic opportunity and activity on a broad scale throughout our state. But to build a truly sustainable child care system in Nebraska, we must find ways attract private sector investment.

The Nebraska Child Care Contribution Tax Credit Act is a milestone in engaging business and individual support for this crucial element in our state's economic infrastructure.

Key Points

- ▶ Nebraska's child care industry needs more diverse sources of revenue to stabilize existing programs, increase the affordability of quality services and strengthen the state's early childhood professional workforce.
- ▶ LB531 offers a nonrefundable credit as a financial incentive to businesses and individual donors to help grow Nebraska's child care infrastructure.
- ▶ The Child Care Contribution Tax Credit encourages child care programs to pursue quality improvement to be eligible for contributions.
- ▶ The proposed tax credit is offered in tiers equaling 50% or 75% of the total value of contributions, and is capped at the amount of the donor's tax liability or \$100,000, whichever is lower.
- ▶ The Child Care Contribution Tax Credit would be available from January 1, 2022 through January 1, 2027 and capped at \$15 million per year.

Background

Nebraska's child care industry is a highly relevant, though chronically under-developed component of our state's economic infrastructure. Accessible, high-quality child care options for working parents are fundamental to our ability to field a productive workforce, meet the needs of Nebraska-based businesses and grow economic activity at the local and statewide level.

Despite its importance, the child care industry is markedly vulnerable even in relatively healthy economic conditions. Child care programs typically offer exceedingly narrow profit margins for their owners/operators. This results in limited financial security for early childhood professionals in exchange for high operating costs and demanding working conditions. As a result, attrition in Nebraska's child care system represents a serious liability to our state's general workforce, business environment and revenues.

Despite recent federal emergency relief efforts, private sector investment is essential if we are to develop a more robust child care system that will generate economic opportunity and activity on an ongoing basis. The Nebraska Child Care Contribution Tax Credit Act (LB531) offers a substantial financial incentive to private sector taxpayers—including individuals and businesses—who recognize the advantages of increasing access to quality child care in their communities and state.

By making these tax credits contingent upon high-quality standards, this legislation helps ensure we are growing early childhood programs that offer accountable, reliable and responsibly managed services for Nebraska's working parents, employers and communities.

1. What the tax credit offers

The Nebraska Child Care Contribution Tax Credit Act offers a nonrefundable tax credit to any individual taxpayer who makes a qualifying monetary contribution to an eligible program. The credit may be claimed by resident and nonresident individuals, estates, trusts and corporations.

Depending on the tier classification of the contribution, the credit would be equal to either 50% or 75% of the total value of contributions and capped at either the taxpayer's actual income tax liability or \$100,000, whichever is lower.

The Child Care Contribution Tax Credit—in combination with all other nonrefundable credits claimed by the taxpayer—cannot exceed the taxpayer's income tax liability for a given tax year. However, the credits exceeding that taxpayer's liability may be carried forward for up to five years.

If signed into law, the tax credit would be available from January 1, 2022 through January 1, 2027, when it sunsets. The total amount of credits that may be approved for each tax year is capped at \$15 million.

2. Qualifying contributions

The tax credit applies to contributions that are made to an eligible child care program or an approved intermediary. Qualifying contributions may be made in cash, check, cash equivalents, agricultural commodities, livestock or publicly traded securities, but exclude contributions of services or property.

Qualifying contributions may be used to:

- Establish or help operate facilities, schools, programs or family home providers that offer quality child care services
- Train child care professionals
- Support grant or loan programs to better enable parents to pay for child care

Contributions made to a for-profit business, including family home providers, qualify for the Nebraska Child Care Contribution Tax Credit. However, the program must use the proceeds of the monetary contribution for (1) acquiring or improving child care facilities, (2) equipment or (3) services.

Improving staff salaries, staff training, and the quality of the child care provided by the facility **are** qualified expenditures which are paid out of the contributed funds.

3. Eligible child care purposes

Contributions must be made for an eligible child care purpose to qualify for the credit. The credit only applies to contributions that promote or enhance quality child care for children age 12 or younger, including:

- Donations that support establishment or operation of a licensed child care facility, center, family home provider or an approved school facility that uses the donation to deliver or enhance quality child care
- Pooled monies from several businesses to establish or operate a licensed child care facility, center or home provider
- Donations that establish a registered grant or loan program for parents requiring financial assistance for child care
- Donations to programs or collaboratives for training, technical assistance or mentoring child care professionals
- Donations to establish information and referral services to connect parents to quality child care

4. Eligible child care programs

An eligible quality child care program means:

- A licensed Family Child Care Home (I and II), Child Care Center, Preschool or School-Age-Only Center that is committed to participating in the quality rating and improvement system developed under the Step Up to Quality Child Care Act (as defined in section 71-1954)
- Programs that operate as a for-profit business or a non-profit organization as defined by the Internal Revenue Service

About Opportunity Zones

The Nebraska Child Care Contribution Tax Credit Act emphasizes contributions to programs operating in Opportunity Zones throughout the state. These zones designate areas where financial incentives are offered to encourage private sector investments that stimulate local economic growth.

Nebraska's Opportunity Zones are located in communities with elevated rates of poverty or lower levels of median family income. They are distributed across 44 specific U.S. Census tracts in 18 counties: Adams, Buffalo, Colfax, Dakota, Dawson, Dodge, Douglas, Garfield, Hall, Lancaster, Lincoln, Madison, Merrick, Red Willow, Scotts Bluff, Thurston, Valley and York.

LB531 offers the highest tier of the nonrefundable tax credit for qualifying contributions made to eligible programs in the state's Opportunity Zones or those serving families through the child care subsidy. The intent is to grow quality child care options in communities where families face significant financial challenges, as well as to keep pace with the increased demand for child care that accompanies local investments in housing, workforce development, new business and other elements of economic infrastructure.



5. Tier calculation of the tax credit

Nonrefundable Child Care Contribution Tax Credits are available in two tiers for qualifying contributions:

■ 50% nonrefundable credit

- ▶ Applies to contributions made to child care or early childhood programs that meet the eligibility criteria described above

■ 75% nonrefundable credit

- ▶ Applies to contributions made to child care or early childhood programs that meet the eligibility criteria **and** have a physical presence and practice in a Nebraska Opportunity Zone, as recognized by federal rule and the Nebraska Department of Economic Development
- ▶ Applies to contributions made to child care or early childhood programs that meet the eligibility criteria **and** have at least one child care subsidy enrollment as confirmed by the Nebraska Department of Health and Human Services

6. Non-qualifying contributions

Contributions will not qualify for the tax credit if any of the following apply:

- ❑ Contributions made to child care programs in which the taxpayer or a person related to the taxpayer has a financial interest
- ❑ Contributions to a for-profit business that are not directly invested in acquiring or improving facilities, equipment or services, including staff salaries, training or quality care
- ❑ Contributions that are not directly related to promoting quality child care in Nebraska

Companies may still claim the tax credit if their contribution to an eligible program results in discounted child care for their employees. One of the prime goals of the Child Care Contribution Tax Credit is to encourage employers to help offset child care costs for working parents, assuming that employer has no financial interest in the child care program.



601 South 13th Street | Suite #600 | Lincoln, NE 68508 | P: 402 261 9671
FirstFiveNebraska.org | info@FirstFiveNebraska.org

