



Nebraska Child Care Contribution Tax Credit Act

POLICY BRIEF

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.
- ▶ The Nebraska Child Care Contribution Act serves as a financial incentive to involve businesses and individual donors in growing Nebraska's high-quality child care infrastructure.
- ▶ Taxpayers may claim either 50% or 75% of the total value of their contribution. The maximum amount of the credit cannot exceed \$25,000 or 50% of the taxpayer's state income tax liability, whichever is less.
- ▶ The Child Care Contribution Tax Credit would offer a maximum of \$5 million in tax credits per year until the act sunsets.

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 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 is available to resident and nonresident individuals, estates, trusts and corporations.

Taxpayers may claim either 50% or 75% of the total value of their contribution. The maximum amount of the credit cannot exceed \$25,000 or 50% of the taxpayer's state income tax liability, whichever is less for the tax year in which a contribution is made.

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 enacted, the Nebraska Child Care Contribution Tax Credit Act would offer a maximum of \$5 million in credits per tax year thereafter until the Act sunsets.

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.

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

Why encourage private sector contributions to quality programs offering subsidized child care?

Nebraska's child care subsidy offsets the cost of child care for families of low income so parents can prepare for, and participate in the state's workforce. This both improves the financial security of families with young children and benefits Nebraska employers who depend upon working parents to sustain industries such as retail, manufacturing, health care and hospitality.



About 44% of Nebraska's licensed and license-exempt providers currently participate in the state's subsidy program, which **reimburses them at 60% of the current market rate** to serve qualifying families based in part on the age of children served and the geographical location of the program. While this offers a relatively stable revenue stream to providers, it does not fully cover the true cost of delivering child care services. As more Nebraska child care providers strive to elevate the quality of their programs, the disparity between operating costs and reimbursement widens.

By encouraging direct, private-sector contributions to high-quality child care programs, the proposed Nebraska Child Care Contribution Tax Credit makes it easier for these small businesses to remain financially viable so they can continue to support the workforce in other areas of the state economy and promote the healthy development of our youngest Nebraskans.

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 at least one child care subsidy enrollment as confirmed by the Nebraska Department of Health and Human Services

- 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.

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, such as the professional development of staff



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

