



LB702: Reauthorize the School Readiness Tax Credit Act

POLICY BRIEF | JANUARY 2022

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Attrition in the early childhood professional workforce undercuts workforce participation and productivity in all sectors of business and industry in Nebraska.

The School Readiness Tax Credit Act offers a way to anchor more professional talent in the child care industry while promoting the overall quality of programs serving children age 0-5 and their families.

Key Points

- ▶ The School Readiness Tax Credit Act was in effect in Nebraska between the 2017 and 2021 tax years as a strategy for recruiting and retaining talent to the early childhood professional workforce
- ▶ The Nebraska Unicameral passed legislation in 2020 to correct faults in the statutory language that prevented more early childhood professionals and programs from benefitting from the credits
- ▶ LB702 proposes to extend the School Readiness Tax Credit program so more early childhood providers and programs remain in the child care industry to support parents' workforce participation and employer productivity

Background

Attrition in the early childhood workforce has long been recognized as a serious economic liability facing our state and nation. The child care industry in particular offers long hours, a demanding regulatory environment and comparatively low levels of financial security for early care and education professionals. In fact, the mean annual wage of child care workers is just under half of all other workers in Nebraska.¹

As of September 2021, the total number of providers serving children age 0-5 in Nebraska had decreased by 7.4% since 2019,² continuing an ongoing trend that increasingly threatens the ability of parents to participate in the workforce and, as a result, the productivity and profitability of employers in all sectors of business and industry. It is increasingly necessary to identify financial incentives that can offset this trend.

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 passage of the School Readiness Tax Credit Act (LB889; passed 42-5-2) and correspond to the quality ratings of programs as well as the professional development levels of individual providers.

In 2020, the Nebraska Legislature passed LB266, which corrected statutory language so self-employed professionals and S-Corps could benefit from the refundable and nonrefundable tax credits respectively.

The refundable and nonrefundable tax credits were available until the 2021 tax year, with an annual cap of \$5 million per year.

Intent of LB702

The School Readiness Tax Credit program showed promise as a valued financial support to help anchor professional talent in the early childhood workforce. It also offered significant quality improvement incentives to programs serving children who are eligible for the Child Care Subsidy program. However, sunset of the tax credits in the 2021 tax year meant that many of the intended beneficiaries of the program were only able to take full advantage of the credits since the corrected statutory language went into effect in 2020.

LB702 provides a five-year extension of the School Readiness Tax Credit, allowing more providers qualify and benefit from the program.

How the nonrefundable tax credits work for child care owners/operators

Individuals and businesses who own child care programs may claim a nonrefundable tax credit if they are rated 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 the program by a specific dollar amount corresponding to the program's quality rating.

How the refundable credits work for individual child care 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 a child care provider enrolled in Step Up to Quality for at least six months. The amount of the individual credit is based on their Employee Classification as defined by educational credentials, training and work experience.

Nonrefundable Credits

Step Up to Quality Rating	Credit Amount per Subsidy-Eligible Child
Step 3 _____	\$250
Step 4 _____	\$500
Step 5 _____	\$750

Refundable Credits

Employee Classification	Credit Amount
Level 1 _____	\$ 540
Level 2 _____	\$ 810
Level 3 _____	\$ 1,350
Level 4 _____	\$ 1,620

References

1. U.S. Bureau of Labor Statistics. (2021). "May 2020 State Occupational Employment and Wage Estimates: Nebraska" Retrieved from https://www.bls.gov/oes/current/oes_ne.htm#00-0000
2. Nebraska Department of Health and Human Services. (2021). Child care licensing data requested and analyzed by First Five Nebraska.



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