



LR162: Efficacy of the School Readiness Tax Credit

Assessing provider participation and workforce support

February 2022



I. Introduction

The School Readiness Tax Credit Act (Neb. Rev. Stat. §77-3601-77-3607) allows for up to \$5 million in claims for both a refundable tax credit for qualified child care professionals and a nonrefundable tax credit for qualified child care programs. The legislation is intended to provide a workforce support for child care professionals and incentivize child care programs serving low-income children to improve quality through the state's Quality Rating and Improvement System (QRIS), Step Up to Quality (SUTQ).

To qualify for the refundable tax credit, a child care provider can be self-employed or a staff member in a child care program that participates in Step Up to Quality. The individual must meet or exceed specific requirements for education, training and experience (See Section VI). The nonrefundable tax credit is available to individuals, partnerships, limited liability companies, S corporations or fiduciaries who own or operate a child care program rated Step 3 or higher in Step Up to Quality and participate in Nebraska's Child Care Subsidy Program. The amount available for the tax credit depends on the number of children in the provider's program who receive subsidy and the program's step rating.

II. Tax credit utilization

The number of individuals claiming the refundable individual tax credit has increased 234% from 2017, the first year the credit was available, to the most recent 2020 tax year, as shown in Figure 1.

Similarly, the dollar amount of tax credit claimed for individual refundable credits has increased from \$165,500 to \$595,551, shown in Figure 2.

The nonrefundable child care program credit has not seen the same pattern. For the first three years the tax credit was available, only two programs received it. However, in the most recent tax year, eight programs received the credit.

Figure 1: Approved Individual Tax Credits by Year

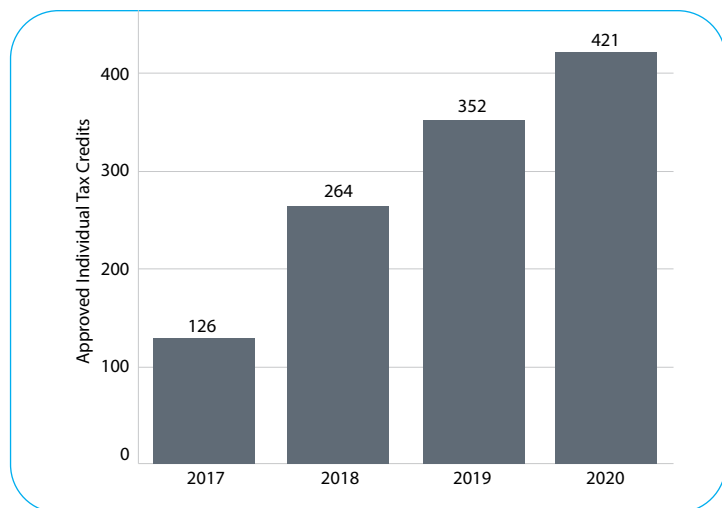
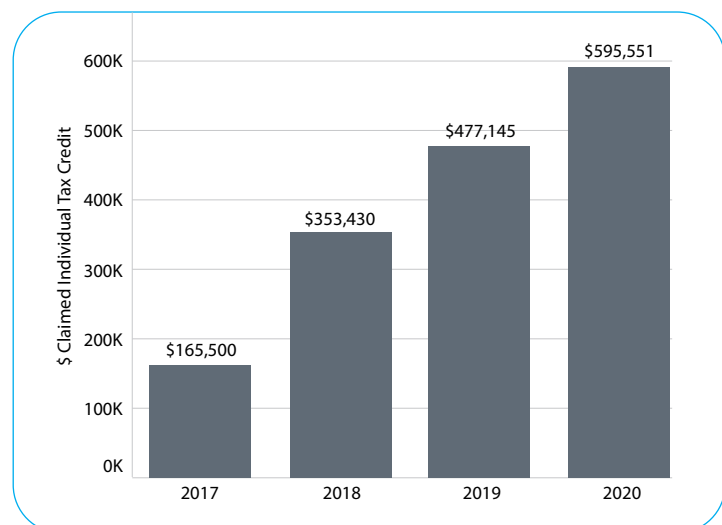
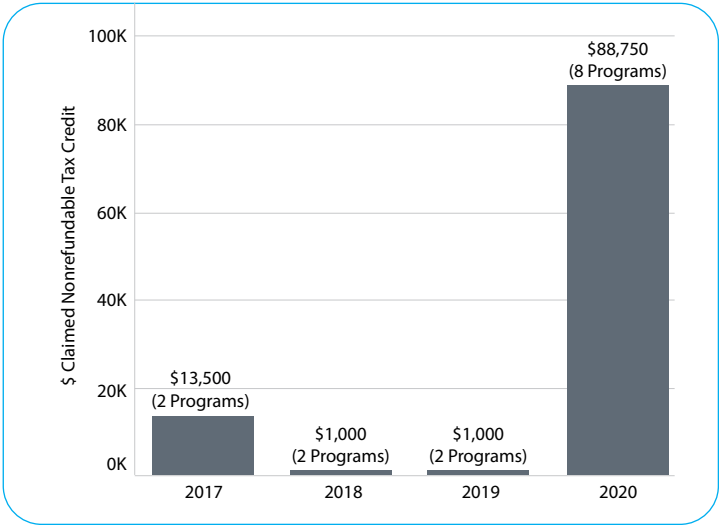


Figure 2: Dollars Claimed for Individual Tax Credit by Year



The dollar amounts for the nonrefundable tax credit can vary substantially between providers. The credit allows for child care programs to receive a specified dollar amount for the average number of children on subsidy attending their program each month (See Section VI). For the 2018 and 2019 tax years, two programs received the credit for a total utilization of \$1,000. However, in 2020, eight programs received the credit for a total utilization of \$88,750. This indicates that the providers receiving the credit in 2020 served significantly more children who are in the child care subsidy program.

Figure 3: Dollars Claimed for Nonrefundable Tax Credit by Year



In total, the utilization for the School Readiness tax Credit has increased each year.

Figure 4: Total Dollars Claimed for School Readiness Tax Credit by Year

Year	Claimed Refundable Individual Tax Credit	Claimed Nonrefundable Program Tax Credit	Total School Readiness Tax Credit Claimed
2017	\$164,500	\$13,500	\$178,000
2018	\$353,430	\$ 1,000	\$354,430
2019	\$477,145	\$ 1,000	\$478,145
2020	\$595,551	\$88,750	\$684,301

Enacted in 2016, the School Readiness Tax Credit helps ensure quality child care is available to working parents, who can be fully present at their jobs knowing their children are in safe, developmentally positive settings.



Nebraska's School Readiness Tax Credit Act includes refundable and nonrefundable tax incentives designed to encourage participation in, and progress through Step Up to Quality, the state's child care quality rating and improvement system.



III. Tax credit as incentive for individual employees to remain in the early childhood field

The School Readiness Tax Credit provides incentives for individuals to remain in the field of early childhood education. Across the country, early childhood educators typically receive low wages, and the field experiences high turnover. In Nebraska, the average annual wage for child care workers is \$25,030, half the average wage for all Nebraska workers.¹

Prior to the COVID-19 pandemic, there was significant turnover within the child care profession in Nebraska, and during 2020, child care workers were one of the top 5 occupations to file claims for unemployment.² Data from the Nebraska Department of Labor show there were 11,135 individuals³ in Nebraska who worked in the field of Child Day Care Services and were covered by unemployment insurance in the first quarter of 2020. By the first quarter of 2021, just over half of those workers (5,667 or 51%) were still in the field. And while 4,648 new employees entered the child care workforce by the first quarter of 2021, with a total of 10,315 individuals in the field of Child Day Care Services, there was a 7% reduction in the workforce over the one-year period.

The number of licensed family child care home providers, who are not typically covered by unemployment insurance and therefore not included in the Department of Labor data discussed above, has also decreased. In 2020, there were 1,851 licensed child care family home providers in Nebraska, and by 2021 there were 1,770, a decrease of 4%.⁴

The pandemic's effect on the child care workforce makes it difficult to assess the quantitative impact of the School Readiness Tax Credit's has on incentivizing individuals to remain in child care. First Five Nebraska conducted several focus groups with child care providers throughout the state and asked whether the School Readiness Tax Credit incentivized them to stay in the child care industry.

Nearly all of the 23 child care professionals described the rewards of working with children as the primary incentive to stay in the early childhood education industry, but several also noted that the low wages can make it a difficult career choice. The tax credit incentivizes them to remain in the field. This was particularly true for family child care home (FCH) providers:

- *"I'm 65, and I've done it for so long and I'm trying to think how long am I going to continue. And because of Wage\$ and because of the School Readiness Tax Credit, those are big incentives not to quit."* – FCH provider in Lincoln
- *"I think overall just having that tax credit just helps you feel more valued as a provider. I know burnout is a huge thing and so just being recognized for the extra step we go beyond being enrolled in Step Up to Quality, our education, that just makes us want to stay in the field longer to, just that little bit of extra, even if it just goes towards our income let's say that it's a huge thing."* – FCH provider in Omaha
- *"Do I go back to teaching in the classroom? Do I keep doing this? And all of those little things, I know the Nebraska Wage\$ program and the tax credit, all those little things are making me think I need to just stay put and where I'm at right now."* – FCH provider in Lincoln

Employees at child care centers noted that while many child care professionals want to remain in child care, the economic realities of low wages mean they often have little choice but to find a different career path. The School Readiness Tax Credit is particularly important to this group:

- *"But when your life situation changes and you make so little, it's, so that tax credit made a big difference to my friend and it added some time that she gets to be in the field, too."*
– Employee at child care center in Lincoln
- *"If you get to the point where you aren't making enough, you're going to have, you'd have to leave the field. And I don't want to hit that point."* – Employee at a child care center in Lincoln

Child care center directors and family child care home providers who employ other individuals saw the greatest benefit of the School Readiness Tax Credit in retention of high-quality staff. Of the seven child care professionals interviewed who oversee other child care staff, six explicitly stated that the School Readiness Tax Credit is a tool for the businesses to help retain high-quality child care professionals:

- *"The way the state broke down the years of service, so the amount of years that you've worked in child care and they've rewarded some of that, I think that is an excellent incentive to keep people in child care. For those of us that have done plus of 15 years, that really is an amazing part of that and not just rewarding those that are just in it for six months and then dash out."*
– Director at FCH with employees, Gosper County
- *"I see more perk in a retention bonus versus a hiring bonus ... so that you keep those good, high-quality staff members that are going to really benefit your center in the long run and hopefully that they're able to keep their stay with you and build that throughout the years versus keeping hiring and going through that back-and-forth process."* – Director at child care center in Omaha

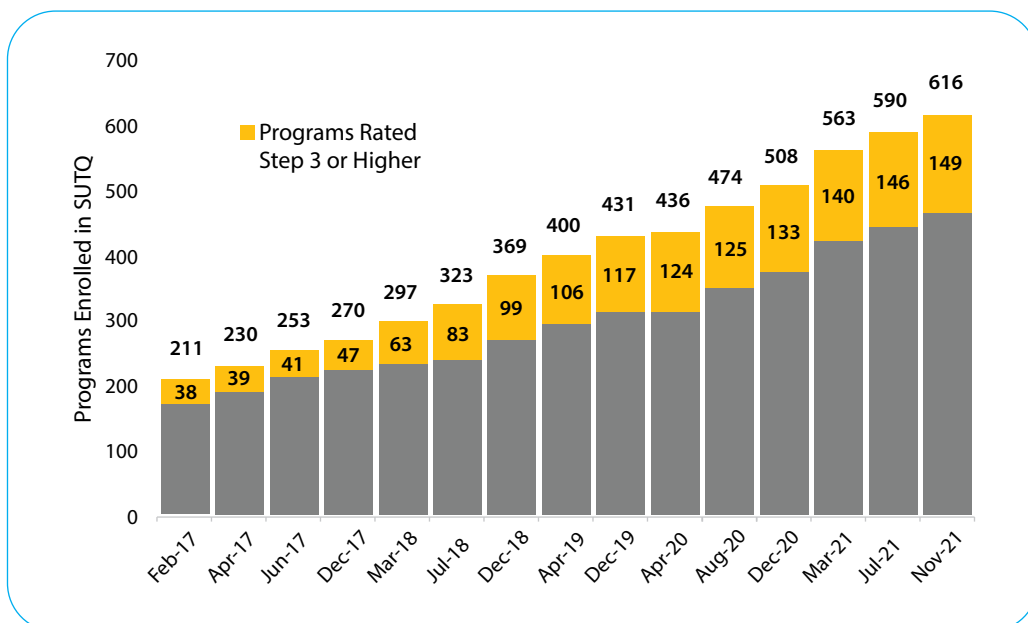
The emphasis on how the School Readiness Tax Credit can improve the quality of care children receive because of the emphasis on professional development was a significant finding in all the focus groups.

- *"I've only gotten [the tax credit] for two years but that's one of the reasons that I did pursue it. I went and got my CDA so that I could get extra financial help at tax time. So yeah, I went and did it. I think it does. I think it gives people incentives to go find more trainings, pursue more education, I really do."* – Employee at a child care center in Sidney
- *"We venture out and do other trainings with other people ... but because there's an incentive and more information ... and it's just good to get different opportunities.... yeah it's [the tax credit] a game changer."* – Employee at a child care center in Omaha
- *"...an incentive for going above and beyond and getting the quality care."*
– Family child care home provider in Columbus
- *"Every month I have something new from a training that I take to the classroom."*
– Employee at a child care center in Sidney
- *"But yeah I mean with the trainings, I feel like [the tax credit] encouraged me or encourages me to think more outside of the box and I feel like that boosts my creativity a lot more than I feel like I would have missed out on otherwise."* – Employee at a child care center in Lincoln

IV. Tax Credit as incentive to enroll in Step Up to Quality

In early 2017, there were 211 programs enrolled in Step Up to Quality (SUTQ) and 38 programs rated Step 3 or higher, a requirement for receiving the nonrefundable program tax credit. By November 2021, 616 programs were enrolled in SUTQ, and 149 were rated Step 3 or higher, a 192% and 292% increase, respectively.

Figure 5: Child Care Programs Enrolled in Step Up to Quality



It is unclear how much of the increase can be directly attributed to the School Readiness Tax Credit. Program utilization of the tax credit has been low, with only two programs claiming a nonrefundable tax credit during the first three years, and eight programs claiming a nonrefundable tax credit in 2020. To qualify for the nonrefundable tax credit, a program must:

- 1. Enroll in Step Up to Quality and be rated Step 3 or higher.**
- 2. Serve children ages 0-5 enrolled in the child care subsidy program.**

In December 2020, 88 of Nebraska's 2,987 licensed child care programs were enrolled in Step Up to Quality at Step 3 or higher, indicated they were willing to accept subsidy and were licensed to provide care for children 0-5.⁵ Eight programs received the nonrefundable tax credit in 2020, about 9% of the potentially eligible programs.

Almost all the family child care home providers and center directors who participated in the focus groups were unaware of the nonrefundable tax credit for programs (See Section V for more detail on barriers). However, there is some indication that the School Readiness Tax Credit can motivate providers to enroll in Step Up to Quality, as demonstrated by a family child care home provider from Fremont:

- *"That was one of the motivating factors of why I pursued my CDA and started to Step Up to Quality—just to be able to have the extra money to be able to invest back into my program to stay, to provide an educational environment for the kids that are in my care."*

Other providers spoke to the value of Step Up to Quality overall, and that the School Readiness Tax Credit was a "bonus" to the hard work they do to maintain a quality program:

- *"But I think in general just the whole premise of Step Up to Quality has been good for getting families and getting teachers because you're telling people that we are quality, we are working on things, and we want to improve. So I think that's been good for retention aside from even the monetary part of it."* – Center director from Omaha
- *"But like I said, with my 23 years, it's [Step Up to Quality] encouraging me to get out of that rut ... it's just made me want to get out and learn more. And I mean it's kind of re-energized me to do what I love to do."* – FCH provider from Columbus



V. Barriers preventing employees and providers from claiming tax credits

Legislative barriers. In 2020, LB266 revised the School Readiness Tax Credit so self-employed individuals and child care businesses classified as S corporations can claim the credit. Prior to that, many self-employed providers, like those who provide child care services through a family child care home license, were inadvertently excluded from the tax credit. Family child care homes are approximately 2/3 of the programs in Nebraska, and nearly 3/4 of the programs outside of the Lincoln and Omaha metro areas. Their exclusion from the original tax credit led to significant frustration with the tax credit and confusion among providers about eligibility for individual and program credits:

Lack of information. One of the largest barriers to accessing the tax credit was a lack of knowledge about the credit and the process for applying. This lack of knowledge is in part related to the legislative barrier that prevented self-employed providers from receiving the credit. Direct communication from the Nebraska Department of Education about the tax credit was often stalled while work was being done to determine why family child care home providers were being denied the credit and what could be done to remedy the situation.

It became clear during the focus groups that many individuals learned about the tax credit through informal networks and sometimes long after they were originally eligible to receive the credit.

- *"I don't know how many times ... I've gone to the girls and been like hey you qualify for this. Have you thought about doing it? And they're like I have no idea, I've never even heard of this. And so I'm like okay let's do some teaching, that's what we're here to do, so." – Center director in Kearney*
- *"And like I said, I wasn't really aware of it until later last year and I don't know that it was, the information was really given too much about it being eligible for staff." – Center owner in Lincoln*
- *"I remember finding out I think it was, was it 2019 after I did my taxes or, I remember hearing about after I did my taxes and I thought I should have done that since I could have, but I didn't know anything about it before then. I don't remember where I heard it from but I remember being too late." – Family child care home provider in Hastings*
- *"I couldn't believe how long it's been going and no one's told us." – Employee at a child care center in Lincoln*

Process and timing. Some child care professionals also discussed the process and timing required to apply for the refundable tax credit as a barrier.

- *"I think I've been awarded once because I miss time frames in which I get things turned in. We send it all to the accountant and then he is too late at getting it sent back in. So that's always been my hang up." – Director at FCH with employees, Gosper County*

To receive the tax credit, individuals must submit an attestation form outlining their qualifications through the Nebraska Early Childhood Professional Records System (NECPRS) by February 1. The attestation form is reviewed by the Nebraska Department of Education, and if approved, the child care professional must submit the printed form along with an application available through the Nebraska Department of Revenue for approval by March 1. The Department of Revenue then processes the application and returns a tax credit certification that must be attached to the individual tax return. For each year the tax credit has been available, between six and 16 applications were denied because either the attestation form or the application form was not submitted.

Education requirement. The final barrier to claiming the School Readiness Tax Credit discussed during the focus groups was the education requirement. This came up most frequently in discussion with directors of child care centers and family child care home providers. Center directors expressed frustration that their employees with many years of experience were not qualified to receive the tax credit due to the education requirements.

- *"We're a private daycare center in Kearney. And so honestly, we don't get a lot of people that necessarily qualify with the education. And I have one staff member who's been in child care for 27 years but doesn't have a degree." – Director at child care center in Kearney*
- *"Just that education piece, we just know in this field that a lot of times experience outweighs the education. It's, you get more people in with experience than you get with education. Once someone has gone on for their bachelor's in early childhood, then they tend to move onto something different—a public preschool or something else and they don't stay in our field unless it's truly their lifelong passion, and there are some of us. So being able to offer this incentive for those people that maybe don't need the education but do have all that experience. I don't think that just anybody who works there should get it. I do think that there needs to be the criteria, but somehow to balance that out a little bit." – Director at child care center in Omaha*
- *"So I understand that the purpose of the tax credit is to have highly educated, knowledgeable providers, providing care to kids to help them be the best they can be going into school. I know, I think I'm, I believe I'm a good provider. I believe I've been a good provider licensed, not licensed, licensed exempt. I think I've done a great job ... I understand why it's important. But until very recently, I wouldn't have been able to do it. And I wonder how many providers out there who don't have the education or have the education and don't know they have it, you know?" – FCH provider in Lincoln*

VI. The amount of the tax credit as it relates to education, professional development and work experience

To qualify for the tax credit, a child care professional must first meet or exceed base requirements in education, training and work experience. An individual who does not meet or exceed the base requirements in all three areas is not able to claim the tax credit.



To determine the exact amount of tax credit that can be claimed, points are assigned for different levels of education, training and work experience. The table below outlines the base requirements and additional points available to child care professionals:

Figure 6: Point Determination for the Refundable School Readiness Tax Credit

Points	Education	Training	Work Experience
Base requirements (no additional points)	CDA or 1-year certificate/diploma in Early Childhood Education or Child Development	12 clock hours of NDE-verified/approved training	At least 6 months of employment in an eligible program during the tax year
3 points for each area that applies	Associate's degree in Early Childhood Education/Child Development	15 clock hours of NDE-verified/approved training	At least 1 year experience working in an early care and education environment (including 6-month base requirement)
4 points for each area that applies	Bachelor's degree or above in a related field	24 clock hours of NDE-verified/approved training	At least 2 years of experience working with children in an early care and education environment (including 6-month base requirement)
5 points for each area that applies	Bachelor's degree or above in Early Childhood Education/Child Development	30 clock hours of NDE-verified/approved training	At least 3 years of experience working with children in an early care and education environment (including 6-month base requirement)

The cumulative points across education, training and work experience determine the level of tax credit the child care professional can receive. For the 2020 tax year, the credit amounts are as follows:

Figure 7: 2020 Refundable School Readiness Tax Credit Amounts by Point Classification

	Points	Tax Credit
Level 1	All Base Requirements	\$ 540
Level 2	7 – 9 Points	\$ 810
Level 3	10 – 12 Points	\$1,350
Level 4	13 – 15 Points	\$1,620

As an example, a child care professional with an Associate's degree in child development (3 points) with 24 clock hours of NDE-verified and approved training (4 points) who has worked at an eligible program for six months with no additional work experience (base requirement, no points) will have seven points and could receive a tax credit of \$810.

The nonrefundable tax credit is available to programs that are rated Step 3 or higher in Step Up to Quality and provide care for children in the Child Care Subsidy Program. The amount claimed for the nonrefundable program tax credit is calculated by multiplying the monthly average number of children cared for who receive the subsidy by the amount specified by the Step Up to Quality rating. For example, if a program provides care for an average of 15 children in the child care subsidy program per month and is rated Step 4, they could claim up to \$7,500 (15 x \$500).

**Figure 8: Nonrefundable School Readiness Tax Credit
Amount Per Child by Program Quality Rating**

Quality Scale Rating of Eligible Program	Tax Credit Per Child Attending
Step 5	\$750
Step 4	\$500
Step 3	\$250
Step 2	Not Eligible
Step 1	Not Eligible

VII. Conclusion

The utilization data show that year after year, more child care professionals are claiming the School Readiness Tax Credit. While the credit has existed since 2017, the 2020 tax year was the first time self-employed individuals were able to claim the tax credit. With the School Readiness Tax Credit set to expire at the end of the 2021 tax year, many of Nebraska's family child care home providers will have only two years, instead of the intended five years, to take advantage of the tax credit. While the legislative barrier experienced by self-employed child care providers was remedied in 2020, misinformation persists around who is eligible for each of the two credits. Communication has also improved in the past two years, leading to an increase in the number of providers and programs claiming the credit. While 2021 tax data will not be available until late 2022, the Nebraska Department of Education has reported they are experiencing an increased number of attestation forms submitted for the 2021 tax year.

Child care professionals raised concerns about the education requirement for the refundable tax credit and how that could or should be balanced with experience. Outside of the focus groups, other providers have expressed similar concerns. In addition to the minimum requirement, child care professionals have expressed frustration with the requirement for degrees related to early childhood. One provider who was not selected for a focus group reached out directly to tell her story. She created the business plan that kicked off her family child care home while in school for her business degree. But because her degree is in business and not a related early childhood field, she does not meet the minimum education requirement and is not eligible to receive the tax credit. Further discussion in this area is warranted.

The School Readiness Tax Credit is meeting its legislative goals of improving the quality of child care in Nebraska, most notably by increasing the training many child care professionals receive, both through enrollment in Step Up to Quality and by increasing training hours to maximize the benefit of the tax credit. The information child care professionals receive during these trainings is being integrated into early childhood classrooms throughout the state.

The School Readiness Tax Credit is also providing a workforce support to child care professionals. While the child care industry still experiences high levels of turnover and is currently experiencing the same staffing issues as many industries in Nebraska, the focus groups showed that some providers were incentivized to remain in child care because of the wage supports provided by the tax credit. More than wage supports, child care professionals repeatedly noted that the recognition by the state for the work they do was important to them. This sentiment was repeated by many focus group participants, and is highlighted in this statement from an employee at a child care center in Lincoln:

■ *"I think any extra attention and recognition early childhood educators can get, the positive feedback and just recognizing what we do every day and that we are teaching these kids. A zero to three-year-old, how many trainings have you had where the brain development is the most important at those ages? And I just don't think a lot of people realize that and we're just babysitters. And anything to kind of promote early childhood education I think it's going to be a positive reinforcement for everybody."*

Citations

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 Labor. (2021). *Nebraska Workforce Trends*, January 2021 issue.

³ This only includes individuals covered by unemployment insurance. This does not include a large number of providers who operate family child care businesses in their homes.

⁴ Nebraska Department of Health and Human Services. (2021). Child Care Licensing Data requested and analyzed by First Five Nebraska.

⁵ This does not mean all 88 programs had a subsidy contract to provide care to a child age 0-5 at any point during 2020, but they could potentially qualify for the program based on their license status and willingness to accept subsidy.



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