



LB754: Child Care Tax Credit Act & School Readiness Tax Credit Act

POLICY BRIEF 2023

About the Legislation

The Child Care Tax Credit Act and School Readiness Tax Credit Act address critical child care challenges facing Nebraska families, early childhood professionals and communities. This legislation was originally introduced as LB318, and later amended to LB754.

I: Child Care Tax Credit Act

■ Refundable tax credit for parents/guardians

The Child Care Tax Credit Act offers a refundable credit to mitigate the impact of child care expenses on Nebraska families. Individual taxpayers will be able to apply for the credit through the Nebraska Department of Revenue. The refundable credit will be capped at \$15 million per year and would go into effect with the tax year beginning January 1, 2024.

Qualifying factors for the refundable credit

The refundable tax credit is available to any parent or legal guardian with a dependent in child care. At least one of the following qualifying factors must apply:

- ▶ The child is enrolled in a licensed child care program
- ▶ The child receives care from an approved, license-exempt provider participating in the child care subsidy program
- ▶ The parent or legal guardian's total household income is less than or equal to 100% of the Federal Poverty Level (FPL)

Size of the refundable credit

The refundable tax credit is offered in two tiers for households whose income is \$150,000 or less.

- ▶ **Tier 1 | \$2,000 per child** if the total annual household income does not exceed \$75,000
- ▶ **Tier 2 | \$1,000 per child** if the total annual household income is between \$75,000 and \$150,000

Eligibility Based on Monthly Household Income

Families at 100% of the Federal Poverty Level (FPL) are among the poorest in Nebraska. In theory, these families would either qualify for free child care through a local Head Start/Early Head Start program, or child care at a reduced cost from a provider participating in the child care subsidy. However, not every Nebraska community has a local Head Start/Early Head Start Program, while many providers have no incentive to accept the child care subsidy because they can earn more by serving families who can afford to pay the full rate. All too often, this leaves families of low income without realistic options for reliable, licensed child care.

The Child Care Tax Credit Act extends a refundable tax credit to assist Nebraska's neediest families who are not fortunate enough to have access to Head Start/Early Head Start or subsidized child care, leaving them to struggle with the effort and heavy expense of finding reliable, developmentally positive child care options.

■ Nonrefundable tax credit for contributions to early childhood education

The nonrefundable credit included in the Child Care Tax Credit Act is intended to diversify child care funding by engaging private sector contributors. The nonrefundable tax credit will be available to any taxpaying individual or entity (such as a business) to promote or enhance early childhood education options.

The nonrefundable tax credit program will be capped at \$2.5 million per year and would go into effect with the tax year beginning January 1, 2024. Applications for the credit will be submitted to the Nebraska Department of Revenue.

Qualifying factors for the nonrefundable tax credit

A qualifying contribution may be made in cash, check, cash equivalents, agricultural commodities, livestock or a publicly traded security, but excludes contributions of in-kind services or property. Contributions may include, but are not limited to the following:

- ▶ Contributions that support the establishment or operation of a licensed child care facility (both center and family home programs) that uses the donation to deliver or enhance child care.
- ▶ Contributions that support training, technical assistance or professional development for child care providers.
- ▶ Contributions used to fund child care scholarships for families of low income.
- ▶ Contributions to support information and referral services to connect parents to child care.
- ⊘ A taxpayer would **not be eligible** for the nonrefundable credit if the taxpayer claimed a charitable contribution deduction for the qualifying contribution on their federal income tax return.

Size of the nonrefundable tax credit

The nonrefundable tax credit will be available in two tiers and may be claimed by resident and nonresident individuals, estates, trusts and corporations. The tax credit for the taxpayer shall not exceed \$100,000 for any single taxable year.

- ▶ **Tier 1 | 100% nonrefundable credit** applies if the eligible program that receives the contribution has a physical presence in a Nebraska Opportunity Zone, or has at least one child enrolled in the child care subsidy program as verified by the Nebraska Department of Health and Human Services.
- ▶ **Tier 2 | 75% nonrefundable credit** applies to any other qualifying contribution.

About Opportunity Zones

The federal Opportunity Zone program was established to drive targeted investment and economic growth in designated census tracts with elevated poverty rates and lower median family incomes. Currently, there are 44 designated Opportunity Zones in 18 Nebraska counties with both urban and rural communities.

By incentivizing private sector investments in Opportunity Zones, this legislation has the potential to strengthen child care infrastructure in parts of the state most in need of economic stability for working parents, businesses and communities.

II: School Readiness Tax Credit Act (Reauthorization)

The School Readiness Tax Credit Act was originally introduced in 2016 to increase the supply of quality child care. Refundable and nonrefundable tax credits made possible through the reauthorization of the School Readiness Tax Credit Act would go into effect with the tax year beginning January 1, 2024. The total amount of the credits will be capped at \$7.5 million per year.

■ Refundable tax credit for individual child care professionals

Eligibility for the refundable tax credit

The refundable credit offered through the School Readiness Tax Credit Act incentivizes child care professionals to pursue opportunities for program improvement and ongoing professional development. To qualify for the minimum tax credit, applicants must be employed or self-employed at a Step Up to Quality program and have at least 12 hours of in-service training at a licensed child care program.

Applicants may become eligible for higher tiers of the refundable tax credit based on their Professional Classification Level, which corresponds to their educational attainment, relevant training and work history. All applicants for the refundable credit must be registered in the Nebraska Early Childhood Professional Record System.

Size of the refundable tax credit

There are five tiers of the refundable tax credit. The amount of each tier increases with the individual’s Professional Classification Level. (See Table B below.)

**Table B: Refundable Tax Credit Scale
(School Readiness Tax Credit Act)**

Professional Classification Level	Credit
Level 1 _____	\$ 2,300
Level 2 _____	\$ 2,600
Level 3 _____	\$ 2,900
Level 4 _____	\$ 3,200
Level 5 _____	\$ 3,500

■ Nonrefundable tax credit for child care businesses

Eligibility for the nonrefundable tax credit

The nonrefundable option offered by the School Readiness Tax Credit is oriented specifically to providers who are committed to offering high-quality services to children and families through the child care subsidy.

- ▶ Eligible providers must be rated at Step 1 or above in the Step Up to Quality program.
- ▶ Applicants may include, but are not limited to partnerships, limited liability companies and S-Corporations.

Size of the nonrefundable tax credit

The size of the nonrefundable tax credit is equal to the average monthly number of children served through the child care subsidy, multiplied by a dollar amount based on the Step Up to Quality scale rating of the program. (See Table C below.)

Table C: Nonrefundable Tax Credit Scale
(School Readiness Tax Credit Act)

Step Up to Quality Rating	Credit*
Step 1_____	\$ 400
Step 2_____	\$ 600
Step 3_____	\$ 800
Step 4_____	\$ 1,000
Step 5_____	\$ 1,200

* per child based on the average monthly number of children served through the subsidy



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