

**FISCAL NOTE**  
**LEGISLATIVE FISCAL ANALYST ESTIMATE**

<b>ESTIMATE OF FISCAL IMPACT – STATE AGENCIES</b> (See narrative for political subdivision estimates)				
	<b>FY 2016-17</b>		<b>FY 2017-18</b>	
	<b>EXPENDITURES</b>	<b>REVENUE</b>	<b>EXPENDITURES</b>	<b>REVENUE</b>
GENERAL FUNDS	\$122,672	\$0	\$25,746	(\$10,140,000)
CASH FUNDS				
FEDERAL FUNDS				
OTHER FUNDS				
<b>TOTAL FUNDS</b>	<b>\$122,672</b>	<b>\$0</b>	<b>\$25,746</b>	<b>(\$10,140,000)</b>

**Any Fiscal Notes received from state agencies and political subdivisions are attached following the Legislative Fiscal Analyst Estimate.**

LB 889 creates the School Readiness Tax Credit Act.

The bill creates four distinct categories of state income tax credits, all of which are refundable, all related to child care.

- 1) For tax years beginning on or after January 1, 2017, a tax credit is provided to individuals who meet the following requirements:
  - They receive a tax credit under Section 77-2715.07 (2)(a) or 77-2715.07(2)(b) for the taxable year;
  - They had a child who attended an eligible program for the taxable year. Eligible program is defined as an applicable child care and early childhood education program as defined in Section 71-1954 that has applied to participate in the quality rating and improvement system developed under the Step Up to Quality Child Care Act and has been assigned a quality scale rating.

The tax credit is equal to the credit received under Section 77-2715.02(2)(a) or (b) multiplied by a percentage based upon the quality scale rating of the eligible program the child attended, as follows:

<u>Quality Scale Rating:</u>	<u>Percentage:</u>
Step Five	200%
Step Four	150%
Step Three	100%
Step Two	50%
Step One	0%

This credit is in addition to the credit provided in Section 77-2715.07(2)(a) or (b) and individuals with multiple children shall calculate the credit for each individual child.

- 2) For tax years beginning on or after January 1, 2017, a tax credit is provided to any child care and education provider whose eligible program provides services to children who participate in the child care subsidy program pursuant to Section 68-1202. The credit is an amount equal to the average monthly number of children in the provider's eligible program, multiplied by an amount based upon the quality scale rating of the program, as follows:

<u>Quality Scale Rating:</u>	<u>Tax Credit per Child:</u>
Step Five	\$1,500
Step Four	\$1,250
Step Three	\$1,000
Step Two	\$ 750
Step One	\$ 0

- 3) For tax years beginning on or after January 1, 2017, a tax credit is provided to eligible staff members. Eligible staff member is defined as an individual who is employed with an eligible program for at least 6 months of the taxable year and who is listed and classified under the Nebraska Early Childhood Professional Record System as provided for in Section 71-1962(4). The credit is as follows:

<u>Classifications:</u>	<u>Tax Credit:</u>
Level Four	\$3,000
Level Three	\$2,500
Level Two	\$2,000
Level One	\$1,500

The Tax Commissioner is to adjust these credit levels each tax year beginning on or after January 1, 2018, by the percentage change in the Consumer Price Index for All Urban Consumers.

- 4) For tax years beginning on or after January 1, 2017, a tax credit is provided for eligible business expenses supported by a business. The credit is equal to a percentage of the eligible business expenses incurred based upon the quality scale rating of the eligible program to which the expenses are related or the quality scale rating of the eligible program the child attends, as follows:

<u>Quality Scale Rating:</u>	<u>Percentage of Expenses Allowed:</u>
Step Five	20%
Step Four	15%
Step Three	10%
Step Two	5%
Step One	0%

Eligible business expenses include expenses for construction, renovation, expansion, or major repair of a facility housing an eligible program, the purchase of equipment, maintenance and operation of an eligible program, not to exceed \$50,000 per tax year; and payments made to an eligible program for child care and education services to support employees, not to exceed \$5,000 per child per tax year; and the purchase of child care slots at eligible programs actually provided or reserved for children of employees, not to exceed \$50,000 per tax year.

All of the above credits may be claimed by filing a form developed by the Tax Commissioner.

The bill also provides for the recapture of credits that have been obtained by fraud or misrepresentation.

The Department of Revenue is given rule and regulations authority under the Act.

LB 889 also requires the Department of Education to develop a classification system for all employees of applicable child care and early childhood education programs listed in the Nebraska Early Childhood Professional Record System.

#### Fiscal Impact:

The Department of Revenue indicates the following fiscal impact to the General Fund as a result of the provisions of LB 889:

FY2016-17:	\$ 0
FY2017-18:	(\$ 10,140,000)
FY2018-19:	(\$ 16,350,000)
FY2019-20:	(\$ 19,250,000)
FY2020-21:	(\$ 29,020,000)

Costs are expected to increase as the number of child care providers in the Step Up to Quality Child Care Program increase. The credit provided for in Section 7 of the bill is not fully realized due to the Act not containing harmonizing provisions allowing pass-through entities to distribute the credits to their owners.

The Department of Revenue indicates the cost to implement LB 889 as a one-time programming charge of \$97,530 paid to the Office of the CIO to add a line to Forms 1040N, 1041N, 1120N, and NebFile. In addition the Department will require 0.5 FTE for a Fiscal Compliance Analyst to administer the program. PSL for this position is \$18,904 and \$19,358 for FY2016-17 and FY2017-18, respectively.

We have no basis to disagree with the Department of Revenue's estimate of fiscal impact or cost.

The Department of Education indicates minimal costs to implement LB 889.

We have no basis to disagree with the Department of Education's estimate of cost.

**State Agency Estimate**

State Agency Name: Department of Revenue		Date Due LFA: 2/1/2016				
Approved by: Tony Fulton		Date Prepared: 01/27/2016				
		Phone: 471-5896				
<u>FY 2016-2017</u>		<u>FY 2017-2018</u>		<u>FY 2018-2019</u>		
<u>Expenditures</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Revenue</u>	
General Funds	\$122,672	\$0	\$25,746	(\$10,140,000)	\$26,363	(\$16,350,000)
Cash Funds						
Federal Funds						
Other Funds						
Total Funds	\$122,672	\$0	\$25,746	(\$10,140,000)	\$26,363	(\$16,350,000)

LB 889 creates the School Readiness Tax Credit Act (Act). The Act provides four separate categories of refundable income tax credits for taxable years beginning on or after January 1, 2017.

First, Section 4 of LB 889 provides a refundable income tax credit for individuals who both received a childcare credit pursuant to Neb. Rev. Stat. § 77-2715.07(2) (a) or (b) and had a child, five years old or younger, who attended an eligible child care and early childhood education program. The amount of the credit will equal a percentage of the childcare credit based on how the program attended by the child is rated pursuant to the Step up to Quality Child Care Act, Neb. Rev. Stat. § 71-1954 et seq. The taxpayer may receive a credit equal to a percentage of his or her childcare credit as follows: A) 200% for a Step Five program, B) 150% for a Step Four program, C) 100% for a Step Three program, D) 50% for a Step Two program, E) 0% for a Step One. For taxpayers who have multiple children, the credit will be calculated for each child separately.

Second, Section 5 of LB 889 provides a refundable credit to eligible child care and education providers whose programs serve children who participate in the child care subsidy program established in Neb. Rev. Stat. § 68-1202. The credit to the provider shall be equal to the average monthly number of subsidy children who attend the provider's program multiplied by an amount based on how the program is rated pursuant to the Step Up to Quality Child Care Act, § 71-1954 et seq. The provider may receive a credit equal to the following amounts per child: A) \$1,500 for a Step Five program, B) \$1,250 for a Step Four program, C) \$1,000 for a Step Three program, D) \$750 for a Step Two program, E) \$0 for a Step One program.

Third, Section 6 of LB 889 provides a refundable credit to staff members who are both employed with an eligible program for at least six months during the taxable year and are classified under the Nebraska Early Childhood Professional Record System. The development of the classification system is provided for in Section 11 of LB 889. Eligible staff members may receive a credit equal to the following amounts: A) \$3,000 for a Level Four classification, B) \$2,500 for a Level Three classification, C) \$2,000 for a Level Two classification, and D) \$1,500 for a Level One classification. These credit amounts will be adjusted for inflation. To receive this credit, the eligible staff member shall file with his or her income tax return a form provided by the Nebraska Early Childhood Professional Record System to verify that he or she meets the requirements of the applicable classification level.

Finally, Section 7 of LB 889 provides a refundable credit for eligible business expenses incurred by a business. Eligible expenses include: 1) construction or renovation of a facility housing an eligible program not to exceed \$50,000 per tax year, 2) payments made to an eligible program to support an employee not to exceed \$5,000 per child per tax year, and 3) the purchase of childcare slots at an eligible program actually provided or reserved for children of employees not to exceed \$50,000 per tax year. A business may receive a credit equal to a percentage of eligible expenses based on the quality rating of the related child care and education program as follows: A) 20% for a Step Five program, B) 15% for a Step Four program, C) 10% for a Step Three program, D) 5% for a Step Two program, and E) 0% for a Step One program.

All credits created by LB 889 may be claimed by filing a form created by the Tax Commissioner.

LB 889 provides that refunded credits that are found to have been obtained by way of fraud or misrepresentation may be recaptured.

The Department estimates the reduction to the General Fund revenues as follows:

FY16-17	\$	0
FY17-18	\$	10,140,000
FY18-19	\$	16,350,000
FY19-20	\$	19,250,000
FY20-21	\$	29,020,000

The credits were estimated using the Department of Human Health and Services’ projections of the Step Up to Quality Child Care Program through 2020. The costs are expected to continue to increase as the number of child care providers in the Step Up to Quality Child Care Program increases.

The credit provided in Section 7 of this Act is not fully realized due to the Act not containing harmonizing provisions allowing pass-through entities to distribute the credits to their owners.

LB 685 would require a one-time programming charge of \$97,530 paid to the OCIO to add a line to Forms 1040N, 1041N, 1120N, and NebFile. The Department will require 0.5 FTE Fiscal Compliance Analyst to administer this bill.

**Major Objects of Expenditure**

<u>Class Code</u>	<u>Classification Title</u>	<u>16-17 FTE</u>	<u>17-18 FTE</u>	<u>18-19 FTE</u>	<u>16-17 Expenditures</u>	<u>17-18 Expenditures</u>	<u>18-19 Expenditures</u>
A21211	Fiscal Compliance Analyst	0.5	0.5	0.5	\$18,904	\$19,358	\$19,822
Benefits.....					\$6,238	\$6,388	\$6,541
Operating Costs.....					\$97,530		
Travel.....							
Capital Outlay.....							
Aid.....							
Capital Improvements.....							
<b>Total.....</b>					\$122,672	\$25,746	\$26,363