

Nebraska Advantage Microenterprise Tax Credit Act: Performance on Selected Metrics



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Nebraska Advantage Microenterprise Tax Credit Act

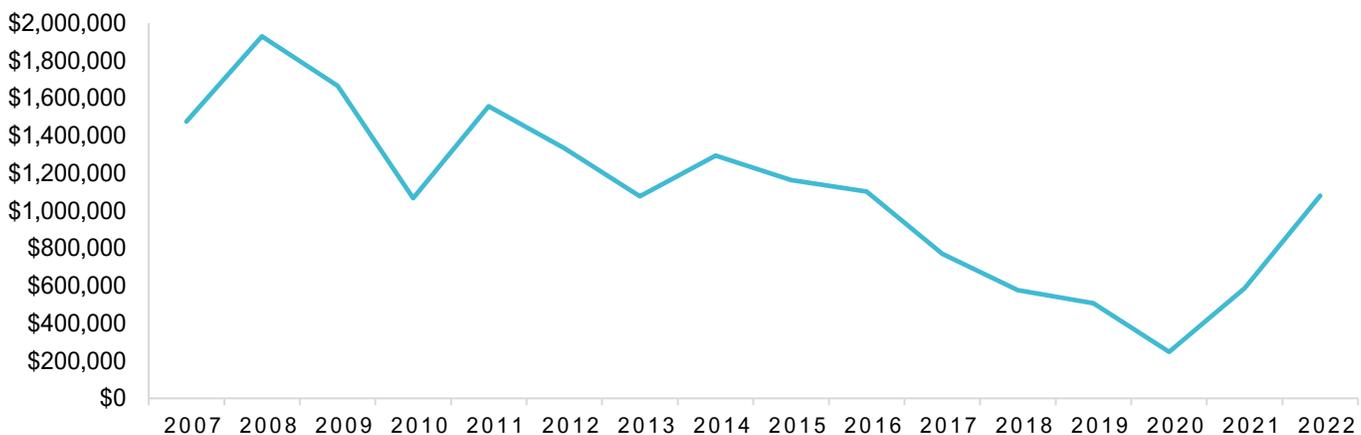
The Nebraska Advantage Microenterprise Tax Credit Act (Microenterprise Act) was passed in 2005 as a part of a package of bills designed to update Nebraska’s business tax incentive programs, with the goal of bringing jobs and investment to the state. The Microenterprise program targets small businesses with less than five full-time employees and is administered by the Department of Revenue.

Owner-operators of microbusinesses can receive a 20% credit on increased spending on investment or employee compensation up to \$20,000. Program allocations are capped at \$2 million per year plus previously unused credits.

Program Participation: 2006 to 2022

A total of **2,866 applications** to the program were approved through 2022, with interest in the program generally declining until 2021. The number of credits received increased in 2021 to almost \$600,000 and over a \$1 million in 2022. In total, the program awarded about **\$17.4 million** from 2007 to 2022.

In 2022, program credits earned surpassed \$1 million for the first time in 6 years.



Source: Audit Office analysis of Department of Revenue data.

For full report, see Legislative Audit Office’s page on the Unicameral website

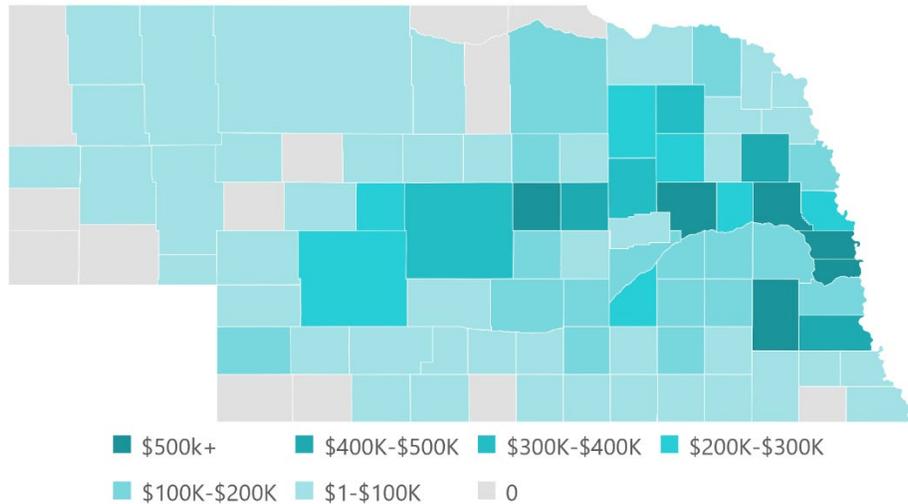
Audit Finding

Compared to other incentive programs administered by the Department of Revenue, aspects of the Microenterprise Tax Credit Act:

- increase the risk that participants may receive credit for activities not intended by the Legislature
- make the program more difficult for the Department to administer, and
- make it difficult for individuals to comply with program requirements

Geographic Distribution of Credits: Participants in the Microenterprise program earned credits in **80 counties**. The top five counties earned over half (51%) of the credits.

Six counties received more than \$500,000 in program credits through 2022.



Source: Audit Office analysis of Department of Revenue data.

Metrics Reviewed in Detail in the Report

- Jobs
- Wages
- New to Nebraska
- Urban and Rural Activity
- Distressed Areas Activity
- High-tech and Renewable Energy
- Cost Per Job
- Economic Modeling
- Cost to Administer
- Fiscal Protections
- Transparency

Jobs and Wages: For Microenterprise projects that earned credits from 2020 to 2022, we identified an increase of **468 total jobs**. Jobs at participating firms paid an estimated average of **\$26,000 per year**, below the statewide average of \$54,000. In the 3 most populous counties, there was a net increase of 19 midwage jobs. In the other 90 counties, there was a net increase of 13 midwage jobs between the base year and the second year of the project.

New to Nebraska: There were 239 unique entities that received about \$1.9 million in credits from 2020 to 2022. We were able to identify the age of the business for 214 participants. Of those, **107 of them**, or half, met our definition of a new company. Those new companies received about \$850,000 in credits.

Fiscal Protections: The Microenterprise Act meets **six of the nine** recommendations made by the Pew Charitable Trusts for ensuring tax incentive programs do not cause fiscal problems, including performance-based incentive structure, monitoring costs, and a yearly cap. Because statutory language is unclear about rollover of unallocated credits, annual expenditures have the potential to reach levels that may not have been intended by the Legislature.

Transparency: The Microenterprise Act at least partially meets goals for **five of eight** categories used to assess tax incentive transparency. It partially meets the categories regarding project information, subsidy information, wages/payroll reporting, investment reporting, and data accessibility. It does not meet goals in the categories of advance notice and public participation, company/awardee information, or jobs reporting.