

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

<b>ESTIMATE OF FISCAL IMPACT – STATE AGENCIES (See narrative for political subdivision estimates)</b>				
	<b>FY 2023-24</b>		<b>FY 2024-25</b>	
	<b>EXPENDITURES</b>	<b>REVENUE</b>	<b>EXPENDITURES</b>	<b>REVENUE</b>
GENERAL FUNDS	\$372,190		\$193,378	(\$34,181,000)
CASH FUNDS				
FEDERAL FUNDS				
OTHER FUNDS				
<b>TOTAL FUNDS</b>	<b>\$372,190</b>		<b>\$193,378</b>	<b>(\$34,181,000)</b>

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

LB 318 would provide three different income tax credits.

LB 318 seeks to create two of these income tax credits through the establishment of the Child Care Tax Credit Act. For taxable years beginning or deemed to begin on or after January 1, 2024 a parent or legal guardian would be eligible to receive a refundable income tax credit if the parent's or legal guardian's:

- Child is enrolled in a child care program licensed under the Child Care Licensing Act;
- Child receives care from an approved license-exempt provider enrolled in the child care subsidy program; or
- Total household income is less than or equal to 100% of the federal poverty level.

The amount of the credit would be per child and based on the parent's or legal guardian's total household income as follows:

- \$5,000 per child, if the total household income is no more than \$75,000;
- \$3,000 per child, if the total household income is more than \$75,000 but no more than \$150,000;
- \$1,000 per child, if the total household income is more than \$150,000 but no more than \$200,000;
- A parent or legal guardian with a total household income of more than \$200,000 is not eligible for the credit.

A parent or legal guardian is to file an application with the Department of Revenue (DOR) to receive the credit. The DOR can approve up to \$17,500,000 in these credits each year.

The second income tax credit under the Child Care Tax Credit Act is a nonrefundable income tax credit that starts for the taxable year of 2024. The credit is equal to 50% or 75% of the taxpayer's qualifying contribution to an eligible child care program made during the taxable year, and a taxpayer shall not receive more than \$100,000 per taxable year. The credit is equal to 75% if the qualifying contribution made by a taxpayer was made to an eligible program that either (a) is located in a designated opportunity zone in Nebraska, or (b) that has at least one child enrolled in the child care subsidy program and is actively caring and billing for the child as verified by the Department of Health and Human Services (DHHS). For all other contributions, the credit shall be equal to 50%.

A taxpayer is to file an application with the DOR to receive the credit. The DOR can approve up to \$15,000,000 in these credits each year.

The third tax credit for both qualified child care/education providers and eligible staff members under LB 318 is from amending the School Readiness Tax Credit Act.

A nonrefundable income tax credit for qualified child care and education providers with children who participate in the child care subsidy program can receive a credit starting from taxable year 2024 equal to the average monthly number of qualifying children who attend the eligible program multiplied by the amount based on the quality scale rating of the program. A taxpayer is to file an application with the DOR to receive the credit.

Eligible staff members can also apply for a refundable income tax credit starting from taxable year 2024. The credit is to be based on the eligible staff member's classification. Under LB 318, the classification system for employees of child care and early childhood education programs listed in the Nebraska Early Childhood Professional Record System was changed from four to five levels with a change in definition to level one. Level one is the least qualified and level five is the most qualified. This new five-level system is used to calculate these tax credits. A taxpayer is to file an application with the DOR to receive the credit.

The DOR can approve up to \$17,500,000 in tax credits each year under the School Readiness Tax Credit Act. The DOR estimates the following reduction in General Fund revenue as a result of LB 318:

Fiscal Year	Refundable Child Care Credit	Child Care Contribution Credit	School Readiness Tax Credit
FY 2023-24	\$ -	\$ -	\$ -
FY 2024-25	\$ 17,500,000	\$ 14,460,000	\$ 2,221,000
FY 2025-26	\$ 17,500,000	\$ 15,000,000	\$ 2,277,000
FY 2026-27	\$ 17,500,000	\$ 15,000,000	\$ 2,334,000

The DOR estimates a one-time charge for programming to be paid to the Office of the Chief Information Officer (OCIO) of \$208,116 to add a line to forms and for the development of a web portal. The DOR estimates the web portal to have additional annual maintenance costs of \$16,394. The DOR also estimates the need for 1 FTE Revenue Operations Analyst II and 1 FTE Fiscal Compliance Analyst to administer and verify the Refundable Child Care and the Child Care Contribution Credit program.

There is no basis to disagree with these estimates by DOR.

The DHHS estimates a need for an office technician to manage the additional volume of requests via the DOR. There is no basis to disagree with this estimate.

The Nebraska Department of Education (NDE) estimates a need for 1 FTE of Career Development Coordinator and 1 FTE of Education Associate to administer the bill. NDE currently has budgeted personnel for this purpose, and therefore we disagree that additional personnel are needed to administer this bill.

ADMINISTRATIVE SERVICES STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSE		
LB: 318	AM:	AGENCY/POLT. SUB: Department of Revenue
REVIEWED BY: Neil Sullivan	DATE: 2/3/2023	PHONE: (402) 471-4179
COMMENTS: The Department of Revenue assessment of fiscal impact from LB 318 appears reasonable.		

ADMINISTRATIVE SERVICES STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSE		
LB: 318	AM:	AGENCY/POLT. SUB: Department of Health & Human Services
REVIEWED BY: Neil Sullivan	DATE: 2/7/2023	PHONE: (402) 471-4179
COMMENTS: No basis to disagree with the Department of Health & Human Services assessment of fiscal impact from LB 318.		

ADMINISTRATIVE SERVICES STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSE		
LB: 318	AM:	AGENCY/POLT. SUB: Department of Education
REVIEWED BY: Neil Sullivan	DATE: 2/7/2023	PHONE: (402) 471-4179
COMMENTS: No basis to disagree with the Department of Education assessment of fiscal impact from LB 318.		



LB 318 also has nonrefundable income tax credit for taxable years beginning on or after January 1, 2024, any taxpayer who makes a qualifying contribution to an eligible child care program as defined in the act during the taxable year is allowed a nonrefundable credit equal to either 50% or 75% of the qualifying contribution made during the taxable year, not to exceed \$100,000 in credits in any single tax year. The taxpayer must apply for the credit with the Department of Revenue (DOR). DOR must review the applications in the order received and certify the approved credit amount to the taxpayer. The DOR may approve up to a total of \$15 million in credits.

The credit to the taxpayer will generally equal 50% of the qualified contribution. But the credit will equal 75%, if the eligible program receiving the contribution has:

- A physical presence in an opportunity zone in Nebraska as designated under the federal Tax Cuts and Jobs Act, P.L. 115-97; or
- At least one child is currently enrolled in the child care subsidy program under §§ 68-1202 and 68-1206 and the child care provider is actively caring and billing for the child as verified by the Department of Health and Human Services.

The taxpayer may carry forward excess credits for up to five taxable years but must use the carryover credit in the earliest taxable year possible.

LB 318 also amends the School Readiness Tax Credit Act to allow tax credits for taxable years beginning on or after January 1, 2024. DOR may approve credits under the School Readiness Tax Act of up to \$17.5 million.

A nonrefundable credit is allowed to qualified child care and education providers who apply with DOR for the credit and whose eligible program services children who participate in the child care subsidy program under § 68-1202. This credit equals the average monthly number of qualifying children who attend the eligible program, multiplied by the amount based on the quality scale rating of the program as follows:

Quality Scale Rating	Tax Credit per Child Attending
Step Five	\$1,500
Step Four	\$1,250
Step Three	\$1,000
Step Two	\$ 750
Step One	\$ 0

An eligible staff member may apply with DOR to receive a refundable tax credit. The credit amount is based on the staff member’s classification level under Neb. Rev. Stat. § 71-1962(4) as follows:

Eligible Staff Member’s Classification	Tax Credit
Level Five	\$3,200
Level Four	\$2,700
Level Three	\$2,200
Level Two	\$1,700
Level One	\$1,200

For taxable years beginning on or after January 1, 2025, the Tax Commissioner must adjust the eligible staff member credit amounts by the percentage change in the Consumer Price Index for All Urban Consumers, as

prepared by the U.S. Department of Labor, Bureau of Labor Statistics, for the 12-month period ending on August 31 of the year preceding the taxable year. The minimum requirements for meeting level one as an eligible staff member are changed to require the staff member to be employed with, or a self-employed individual providing services for, an eligible program as defined in § 77-3603 and to complete at least 12 hours of in-service training at a licensed child care facility.

Using internal income tax data, data from Colorado’s Child Care Contribution Credit, and prior year School Readiness Tax Credit data, for each of the three credits proposed in LB 318, DOR estimates the following reduction in General Fund Revenue:

Fiscal Year	Refundable Child Care Credit	Child Care Contribution Credit	School Readiness Tax Credit
FY 2023-24	\$ -	\$ -	\$ -
FY 2024-25	\$ 17,500,000	\$ 14,460,000	\$ 2,221,000
FY 2025-26	\$ 17,500,000	\$ 15,000,000	\$ 2,277,000
FY 2026-27	\$ 17,500,000	\$ 15,000,000	\$ 2,334,000

LB 318 will require a one-time programming charge of \$208,116 paid to the OCIO for adding a line to NebFile, 1120N, 1041N and the development of a web portal for taxpayer credit application filing. The web portal will require additional annual maintenance costs of \$16,394. Additionally, the hiring of 1 FTE of Fiscal Compliance Analyst and 1 FTE of Revenue Operations Clerk II to administer and verify the Refundable Child Care and the Child Care Contribution Credit program.

LB 318 becomes operative for tax years beginning on or after January 1, 2024.

**ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION**

State Agency or Political Subdivision Name:(2) Department of Health and Human Services

Prepared by: (3) John Meals

Date Prepared 2-6-2023

Phone: (5) 471-6719

	<u>FY 2023-2024</u>		<u>FY 2024-2025</u>	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
<b>GENERAL FUNDS</b>	\$43,274	\$0	\$60,584	\$0
<b>CASH FUNDS</b>	\$0	\$0	\$0	\$0
<b>FEDERAL FUNDS</b>	\$0	\$0	\$0	\$0
<b>OTHER FUNDS</b>	\$0	\$0	\$0	\$0
<b>TOTAL FUNDS</b>	\$43,274	\$0	\$60,584	\$0

Return by date specified or 72 hours prior to public hearing, whichever is earlier.

**Explanation of Estimate:**

LB 318 adopts the Child Care Tax Credit Act. The childcare tax credit would be made available to a parent or legal guardian whose child is enrolled in a licensed childcare program, is enrolled with an approved license-exempt childcare provider who is also enrolled in the childcare subsidy program, or the parent's/legal guardian's total household income is less than or equal to one hundred percent of the federal poverty level.

The Department of Revenue (DOR) is responsible to verify these licensed/license-exempt childcare providers and their enrollment in the childcare subsidy program. Upon request from DOR, the Department of Health and Human Services would provide verification that a licensed or license-exempt childcare provider is enrolled in the childcare subsidy program and that the provider is actively caring and billing subsidy for at least one child that is enrolled in the childcare subsidy program. The provider enrollment is not confidential but the children/families participating in the subsidy program would be confidential.

An office technician position will be needed to manage the volume of requests.

**MAJOR OBJECTS OF EXPENDITURE**

PERSONAL SERVICES:

POSITION TITLE	NUMBER OF POSITIONS		2023-2024 EXPENDITURES	2024-2025 EXPENDITURES
	23-24	24-25		
Office Technician (V01013)	0.75	1.0	\$26,762	\$37,467
Benefits.....			\$9,367	\$13,113
Operating.....			\$7,145	\$10,004
Travel.....			\$0	\$0
Capital Outlay.....			\$0	\$0
Aid.....			\$0	\$0
Capital Improvements.....			\$0	\$0
<b>TOTAL.....</b>			<b>\$43,274</b>	<b>\$60,584</b>

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**2023**

**LB<sup>(1)</sup> 318**

**FISCAL NOTE**

State Agency OR Political Subdivision Name: <sup>(2)</sup> Education

Prepared by: <sup>(3)</sup> Lauri Cimino Date Prepared: <sup>(4)</sup> 1.24.23 Phone: <sup>(5)</sup> 531-333-6453

**ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION**

	<u>FY 2023-24</u>		<u>FY 2024-25</u>	
	<u>EXPENDITURES</u>	<u>REVENUE</u>	<u>EXPENDITURES</u>	<u>REVENUE</u>
GENERAL FUNDS	_____	_____	_____	_____
CASH FUNDS	_____	_____	_____	_____
FEDERAL FUNDS	<u>\$173,877</u>	_____	<u>\$178,398</u>	_____
OTHER FUNDS	_____	_____	_____	_____
<b>TOTAL FUNDS</b>	<u><u>\$173,877</u></u>	<u><u>0</u></u>	<u><u>\$180,798</u></u>	<u><u>0</u></u>

**Explanation of Estimate:**

LB318 will require the NDE personnel to review and verify staff qualifications including training and education and process the attestation form for each application in the Nebraska Early Childhood Professional Records System (NECPRS) The attestation application opens in July of each year. Based on the previous tax credit attestations were due to the Department of Revenue by March. The forecast estimates are based on the last 5 years and estimates for growth.

**BREAKDOWN BY MAJOR OBJECTS OF EXPENDITURE**

**Personal Services:**

<u>POSITION TITLE</u>	<u>NUMBER OF POSITIONS</u>		<u>2023-24</u>	<u>2024-25</u>
	<u>23-24</u>	<u>24-25</u>	<u>EXPENDITURES</u>	<u>EXPENDITURES</u>
Career Development Coordinator	<u>1</u>	<u>1</u>	<u>\$61,454</u>	<u>\$63,496</u>
Education Associate	<u>1</u>	<u>1</u>	<u>\$40,064</u>	<u>\$41,667</u>
Benefits.....			<u>\$69,959</u>	<u>\$73,235</u>
Operating.....			_____	_____
Travel.....			<u>\$2,400</u>	<u>\$2,400</u>
Capital outlay.....			_____	_____
Aid.....			_____	_____
Capital improvements.....			_____	_____
<b>TOTAL.....</b>			<u><u>\$173,877</u></u>	<u><u>\$180,798</u></u>