Nebraska becomes first Midwest state to offer ‘school readiness’ tax credits to child care providers, workers

Jon Davis [1]

Starting in 2017, the state of Nebraska will begin offering up to $5 million in tiered tax credits annually to early-childhood programs and their employees — the first Midwestern state, and just the second U.S. state, to do so. Under the School Readiness Tax Credit Act [2] (LB 889, passed earlier this year), which is linked to a quality rating and improvement system created three years ago by the Unicameral Legislature, providers receive incentives based on their quality rating, while eligible employees can claim credits based on education levels, training and work history.

Nebraska’s child care facilities are rated on a five-step scale. A credit of $250 per enrolled child kicks in at the third step, followed by one of $500 per child at the fourth and $750 per child for facilities that meet the state’s highest quality rating (the fifth step).

Eligible employees, meanwhile, will be able to claim credits ranging from $500 to $1,500. The credits will be available through 2021 — a sunset date that the bill’s chief sponsor, Sen. Heath Mello, says will provide legislators with enough data to evaluate the program for potential renewal.

Nebraska’s LB 889 is modeled after Louisiana’s more-expansive school readiness tax credits, which also include refundable tax credits for parents who send children to facilities participating in the state’s quality-rating system and for employers that help provide child care (either by having centers of their own or providing financial assistance to workers).

In discussions with fellow legislators, Mello says, “we strategically focused” on just two of the four credits (those for child care facilities and workers) that seemed most likely to have an immediate impact because of Nebraska’s existing “Step Up to Quality” program. This quality rating system for child care facilities and early-education programs was established in 2013 by the Unicameral Legislature.

Tax credits tied to quality, experience

Geoffrey Nagle, president and CEO of the Chicago-based Erikson Institute, a graduate school focused on child development, says tax credits like these are “one of the most efficient steps to take to infuse money into [a state’s early-childhood education] system.”

More and more, states are recognizing the importance of families and young children having access to quality child care. Yet the current business model for these centers makes widespread access to quality difficult — these facilities need a certain staff-child ratio, Nagle says, but also need to keep fees relatively affordable.

While the federal Child Care and Development Block Grant program helps, state tax credits can be a small but crucial step in the right direction to redress the low wages and subsequent high turnover in child care facilities.

But to work, he says, credits for employers must be paired with a quality rating system (most states now have systems in place to rate child care facilities; see sidebar). According to Nagle, the credits for individual employers should be based on their own education levels, not on the quality of the child care center where they happen to work. (Louisiana, for example, requires only that individuals work at a center that participates in the state’s quality-rating program.)

“That’s critical, or you’re going to create a system where the haves have everything and the have-nots have nothing,” says Nagle, who helped bring about Louisiana’s tax credit law (Act 394, passed in 2007).
Susan Bland and Louise Stoney, authors of a 2011 paper on tax credits for early care and education, also endorse them as an effective targeted tool. While not a panacea, “credits should be considered in any mix of strategies that are under consideration for improving the quality of [early care and education] and making high-quality ECE more affordable,” they wrote.

Now that Nebraska has approved “school readiness” tax credits, Nagle hopes more states join the effort. He adds that lawmakers should take a more comprehensive approach to early-childhood development, starting with help for expectant mothers all the way through pre-kindergarten or child care programs for 4-year-olds.

“No one’s doing it comprehensively ‘all in’ with the kind of investments they need to make,” Nagle says. And whether it is these tax credits, home visit programs for new parents or prenatal nutrition help for mothers-to-be, the returns won’t necessarily show up for 10 or 15 years.

“Any investment in human capital is a long-term investment,” Nagle says.

Across Midwest, states now have systems to rate quality of child care

One out of every four young children (ages 0 to 4) in the United States now get care in some type of organized facility, whether it be a child care center, preschool or a Head Start program. Various factors have led to this increased reliance on care outside the home (more single-parent households and working mothers, for example, and a greater emphasis on early learning), and one response by state policymakers has been to more closely monitor the quality of these providers.

In the Midwest, every state except South Dakota now has a Quality Rating and Improvement System, or QRIS, in place (see map). The QRIS National Learning Network defines these systems as “a method to assess, improve and communicate the level of quality in early care and education settings.”

A “fully functioning” QRIS includes five components:

1) quality standards for programs and practitioners;
2) supports and an infrastructure to meet such standards;
3) monitoring and accountability systems to ensure compliance with quality standards;
4) ongoing financial assistance that is linked to meeting quality standards; and
5) engagement and outreach strategies.

These state systems are typically voluntary and place each child care center in one of five categories (anywhere from one to five stars, for example). While exact criteria vary from state to state, ratings depend on factors such as staff-to-child ratio, staff education and training, the learning environment and curriculum, children’s health and well-being, and the provider’s business practices.

Highly rated child care providers can market this status to their potential customers (the families of young children), and states also can provide other incentives. For instance, Nebraska’s new school-readiness tax credits apply only to operations with a rating of at least 3. Wisconsin’s YoungStar program encourages quality through a child care subsidy, and Minnesota’s Parent Aware offers development assistance to providers and scholarships and retention bonuses to employees.

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