

# Nebraska Advantage Microenterprise Tax Credit Act: Performance on Selected Metrics

Performance Audit Committee  
Nebraska Legislature

April 2024



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# **Table of Contents**

---

- I. Audit Summary & Committee Recommendations**
- II. Legislative Audit Office Report**
- III. Agency Response and Fiscal Analyst's  
Opinion**



## **I. Audit Summary & Committee Recommendations**



# Audit Summary and Committee Recommendations

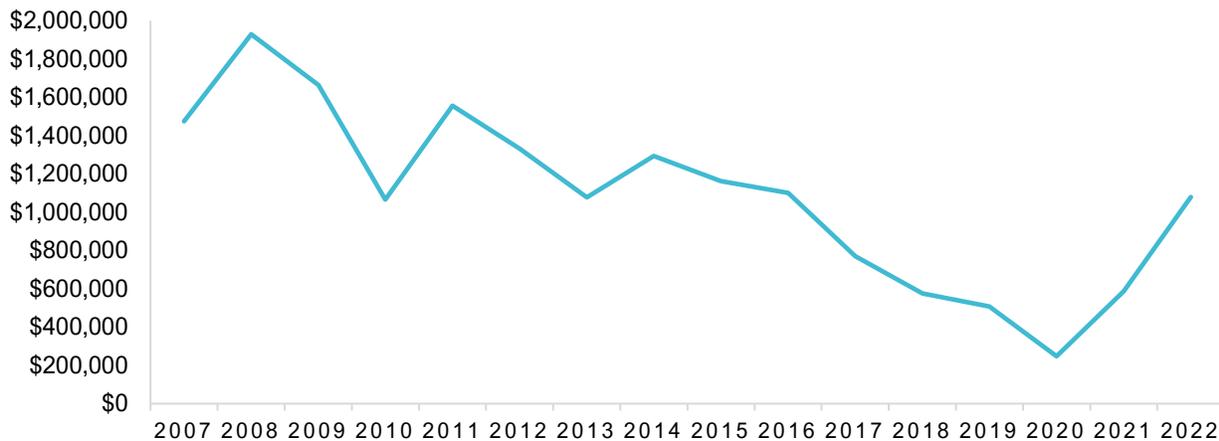
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This section contains a brief summary of the use of the program, the audit findings and results, and the Legislative Performance Audit Committee’s recommendations.

## Nebraska Advantage Microenterprise Tax Credit Act

The Nebraska Advantage Microenterprise Tax Credit 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. For economic activity between 2007 and 2022, program participants earned about \$17.4 million in tax credits. 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 2022, program credits earned surpassed \$1 million for the first time in 6 years.**



## Audit Findings

For most of the metrics used to assess the Microenterprise program, there were no findings because the statutes do not contain standards to compare the program’s activity against and assess whether the program’s results are meeting policymakers’ expectations.

**Finding:** Compared to other incentive programs administered by the Department of Revenue, aspects of the Microenterprise Tax Credit Act: 1) increase the risk that participants may receive credit for activities not intended by the Legislature, 2) make the program more difficult for the Department to administer, and 3) make it difficult for individuals to comply with program requirements.

**Recommendation:** If the Legislature would like to correct these issues, legislation should be introduced to define terms, limit transactions to those that do contribute to the state’s economy, and reduce compliance burdens.

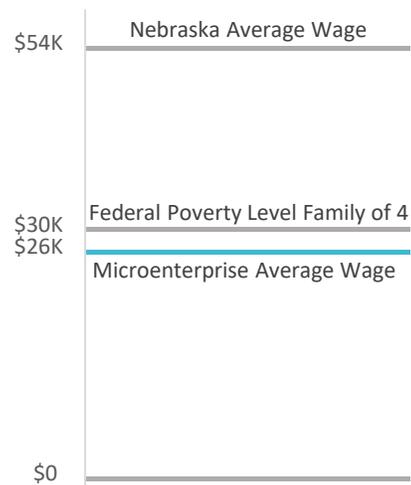
## Audit Results

**Jobs:** How many new jobs were created by incentivized companies? What industries are creating jobs? (pp. 19-20)

**Results:** For Microenterprise projects that earned credits from 2020 to 2022, we identified an increase of 468 total jobs. The individual sectors with the largest job growth were in the service industry: Accommodation and Food Services, Health Care and Social Assistance, and Educational Services.

**Wages:** How many businesses increased wages? (pp. 21-22)

**Results:** From 2020 to 2022, the estimated average wage for jobs at participating firms was about \$26,000 per year, below the statewide average of \$54,000. During that time, 65 of the 179 companies we matched with Department of Labor Information increased their average wages. 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 companies' projects.



**New to Nebraska:** How many businesses were new to Nebraska? (p. 23)

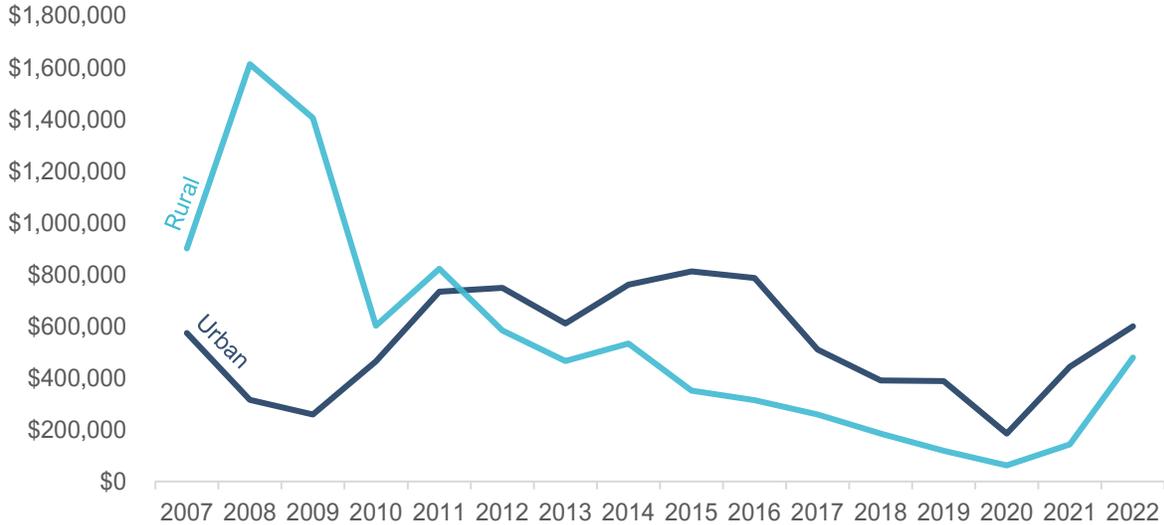
**Results:** There were 239 unique entities that received about \$1.9 million in credits from 2020 to 2022. We were able to identify the age of the business for 214 participants. Of those, 107 of them, or half, met our definition of a new company. Those new companies received about \$850,000 in credits.

**Urban and Rural Activity:** To what extent is the program being utilized in rural areas? What industries are receiving credit in rural areas? (pp. 24-26)

**Results:** Rural areas saw more investment and benefits in the early years of the program. However, a large decline in rural participation after 2009 resulted in more credits going to urban areas in recent years, with credits about evenly split between urban and rural areas over the life of the program.

From 2020 to 2022, the Agriculture sector received the most credits in rural areas while the Professional, Scientific and Technical Services sector received the most credits in urban areas. Of the estimated 468 total job increase during this time period, there was a net increase of 104 jobs (22% of total) in rural areas and a 364 net job increase (78%) in urban.

**Urban credit use has been higher than rural since 2012.**



**Distressed Areas Activity:** To what extent is the program being utilized in connection with distressed areas? What industries are receiving credit? (pp. 27-28)

**Results:** For the life of the Microenterprise program, 1,029 businesses in distressed areas earned a little more than \$8.3 million in credits.

**Discussion:** We defined “distressed” areas as counties with Areas of Substantial Unemployment designated by the Nebraska Department Labor.

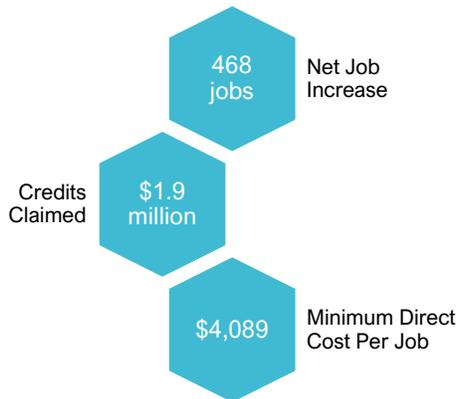
**High-tech and Renewable Energy Companies:** To what extent is the program being utilized by high-tech firms? To what extent is the program being utilized by renewable energy firms? (pp. 29-31)

**Results:** For the life of the program, 60 high-tech firms (less than 3% of all Microenterprise program participants) received \$512,830 in Microenterprise credits. The high-tech industry sector that received the most credit was Computer Systems Design and Related Systems.

There were 355 participants that fit the statutory definition of a renewable energy firm (15% of all Microenterprise participants). They received about \$2.4 million in credits. The vast majority of credits were for agricultural production of potential renewable energy inputs.

Within these 415 companies, 27 jobs were created: 24 jobs (5% of the total increase in Microenterprise jobs) in statutorily defined high-tech industries and 3 jobs (<1%) in statutorily defined renewable energy industries.

**Cost Per Job:** What is the program’s cost per job? (pp. 32-33)



**Results:** For companies that received credit from 2020 to 2022, we estimate that each additional job created during their two-year project timeframe cost the state at least \$4,089 in forgone revenue.

**Discussion:** We note that some amount of economic activity associated with the program would have happened without the incentive. To the extent that jobs would have been created anyway, the true cost per job would be higher than estimated here.

**Economic Modeling:** What does economic modeling tell us about the impact of the Act? (pp. 34-35)

**Results:** Based on economic modeling using REMI (Regional Economic Models, Inc.) Tax-PI software, without the incentive there would have been a net additional 144 job-years in Nebraska between 2007 and 2022. Additionally, Tax-PI estimated that there would have been a net increase in total state and local revenue of around \$30,000. These results suggest that the program was effectively neutral in terms of the statewide employment and revenue effects.

**Cost to Administer:** What is the cost to administer the Act? (p. 36)

**Results:** From 2018 through 2022, the Department of Revenue spent \$8 million to administer all tax incentive programs.

**Discussion:** In previous years, the Department of Economic Development (DED) had incurred costs related to the Microenterprise program because it was included as a part of a package of incentives that were promoted together. That is no longer the case. Since 2018, DED has turned their attention and resources to programs in which they have some administrative role.

**Fiscal Protections:** What are the fiscal protections in the Act? (pp. 37-39)

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

**Discussion:** The Legislature could introduce new legislation to clear up the language—options include eliminating rollover funds, limiting the amount that can be accumulated, and/or limiting the amount that the cap can be exceeded in a given year.

**Transparency:** What program information is available to the public? (pp. 40-46)

**Results:** The Microenterprise Act at least partially meets goals for five of the eight overall 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.



## **II. Legislative Audit Office Report**



Legislative Audit Office Report  
**Nebraska Advantage Microenterprise Tax  
Credit Act: Performance on Selected Metrics**

**April 2024**

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Prepared by  
**Anthony Circo**  
**Matthew Gregory**





# **REPORT TABLE OF CONTENTS**

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<b>INTRODUCTION .....</b>	<b>1</b>
<b>SECTION I: Nebraska Advantage Microenterprise Tax Credit Program.....</b>	<b>3</b>
<b>Program Qualification Requirements .....</b>	<b>3</b>
<b>Program Use .....</b>	<b>4</b>
<b>Policy Issues Follow-Up from 2018 Audit Report .....</b>	<b>15</b>
<b>SECTION II: Analysis of Metrics.....</b>	<b>17</b>
<b>Jobs .....</b>	<b>19</b>
<b>Wages .....</b>	<b>21</b>
<b>New to Nebraska.....</b>	<b>23</b>
<b>Urban and Rural Activity .....</b>	<b>24</b>
<b>Distressed Areas Activity .....</b>	<b>27</b>
<b>High-tech and Renewable Energy Companies .....</b>	<b>29</b>
<b>Cost Per Job.....</b>	<b>32</b>
<b>Economic Modeling .....</b>	<b>34</b>
<b>Cost to Administer .....</b>	<b>36</b>
<b>Fiscal Protections .....</b>	<b>37</b>
<b>Transparency.....</b>	<b>40</b>
<b>Appendix A: Approved Applications</b>	
<b>Appendix B: County Per Capita Benefits</b>	
<b>Appendix C: Industry Approved Applications</b>	
<b>Appendix D: Urban and Rural Activity</b>	
<b>Appendix E: Economic Modeling</b>	
<b>Appendix F: Department of Revenue Allocation Table</b>	



# INTRODUCTION

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The Legislative Audit Office is required to review each business tax incentive program at least once every five years. In 2018, the Performance Audit Committee released the first audit report on the Nebraska Advantage Microenterprise Tax Credit Act. This report contains the results of the Audit Office’s second audit of the program.

## 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.

## Measuring Effectiveness

As the Audit Office (Office) has noted in previous reports, it is difficult to determine whether Nebraska’s tax incentive programs are effective because there are not clear goals and specific measures of success in the programs’ statutes. To address this issue, the Tax Incentive Evaluation Committee, created by the Performance Audit Committee’s LR 444 (2014), identified metrics for tax incentive performance audits. In 2015, the Legislature required the Office to perform ongoing tax incentive audits, adding audit metrics to the Legislative Performance Audit Act.

During the audit planning process, the Office determines which metrics should be used based on the program being audited and the program data available. The Office identified the following metrics to assess the Microenterprise Act.

### Nebraska Microenterprise Tax Credit Act Audit Metrics

Source	Description
<b>SECTION I</b>	
<b>Audit Act</b>	Credits, Applications, County Per Capita
<b>Other States’ Evaluations</b>	Export-based Industries
<b>Other Evaluations</b>	Covid-affected Industries

Source	Description
<b>SECTION II</b>	
<b>Audit Act</b>	Jobs
<b>LR 444</b>	Wages
<b>Audit Act</b>	New to Nebraska
<b>Audit Act</b>	Urban and Rural Activity
<b>LR 444</b>	Distressed Areas Activity
<b>Audit Act</b>	High-tech Companies
<b>Audit Act</b>	Renewable Energy Companies
<b>Audit Act</b>	Cost Per Job
<b>Audit Act</b>	Economic Modeling
<b>LR 444</b>	Cost to Administer
<b>Audit Act</b>	Fiscal Protections
<b>Microenterprise Act Legislative History / Other Evaluations</b>	Transparency

## Report Organization & Acknowledgements

Section I describes the Microenterprise program and provides general descriptive information about participation and credit use. Section II contains our analysis of the selected metrics.

The Legislative Audit Office appreciates the assistance of Mary Hugo, Kate Knapp, and Mike Walsh at the Department of Revenue, and Scott Hunzeker at the Department of Labor.

## Auditing Standards Compliance Statement

We conducted this performance audit in accordance with generally accepted government auditing standards, with two statutory exceptions regarding continuing education hours and peer review frequency.<sup>1</sup> As required by auditing standards, we assessed the significance of noncompliance on the objectives for this audit and determined there was no impact. The exceptions do not change the standards requiring that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on the audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives. The methodologies used are described briefly in each section.

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<sup>1</sup> Neb. Rev. Stat. § 50-1205.01.

# SECTION I: Nebraska Advantage Microenterprise Tax Credit Program

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In this section, we describe the Nebraska Advantage Microenterprise Tax Credit program (the program) and provide general descriptive information about participation and credit use. We also report on policy issues that were identified as we researched the scope questions for the audit.

## Program Qualification Requirements

The Nebraska Advantage Microenterprise Tax Credit Act (Microenterprise Act or the Act) has a broad definition of eligible taxpayers that includes both individuals and businesses. Program tax credits, however, are received by individual applicants, not their businesses. Individuals applying for the tax credit must be personally involved in the day-to-day operation of the business.

There are two limitations on participation. First, participants must have five or fewer full time-equivalent (FTE) employees at the time of application. Second, applicants with farm and livestock operations that have a net worth of over \$500,000 may only participate if they will be investing or increasing employment in selected activities including:

- Processing or marketing of agricultural products
- Aquaculture
- Agricultural tourism
- Production of fruits, herbs, tree products, vegetables, tree nuts, dried fruits, organic crops, or nursery crops

Applicants provide an estimated tax credit to be earned on their application and the Department of Revenue (Revenue) approves applications on a first-come, first-serve basis. While the Act contains an annual cap of \$2 million, it also has a carryover provision. Because of this, Revenue allows any unearned credits that are not granted by the end of the year to be rolled over—up to \$4 million credits can be awarded in a single year according to Revenue policy. This rollover is explained in further detail in Section II's Fiscal Protections Metric on page 37.

## Earning Program Credit

Taxpayers earn credit by increasing the amount spent on new compensation and/or new investment over the tax year before their application year (the base year). Compensation includes all taxable payments to Nebraska residents. Eligible investment includes:

- New buildings and depreciable property
- Repair and maintenance of Nebraska-based property
- Increased leases on buildings or depreciable personal property
- Advertising, legal, and professional services

### Microenterprise Tax Credit: By the Numbers

- Annual program cap: **\$2 million**
- Available to individuals operating businesses with **5 or fewer employees**
- Maximum lifetime credit: **\$20,000**
- **2 years** to increase wages/investment
- **20% credit** on qualified expenditures
- Act sunsets on **December 12, 2032**

## Report Terminology

Program participants are **individuals or businesses**. The following are used interchangeably:

- Businesses
- Entities
- Firms

**Approved Applications:** Entities that completed the application process and are eligible to earn credits

**Credits:** Tax benefits earned by participants for qualified increases in wages or investment. The following are used interchangeably:

- Credits earned
- Credits received

Applicants have two years—the application year and the following year—to increase wages and/or qualified investment. They then receive an income tax credit equal to 20% of these increases, up to the lifetime cap of \$20,000. If the lifetime limit is not reached after their first time participating in the program, the taxpayer may reapply in subsequent years until the limit is reached.

The credit is refundable, meaning the participant receives the full amount even if they have no tax liability. Because the program does not provide credits on sales and use taxes and does not include property tax exemptions, there is no impact on local government budgets—all foregone revenue is from the state general fund.

## Changes to the Program

While there have been several changes to the program, two pieces of legislation impacted eligibility and program use. In 2008, the Legislature changed the qualifications for both taxpayers and eligible activity. LB 177 restricted qualified agricultural activity and added a \$250,000 net worth limitation (later legislation increased this to \$500,000). Credit for increased wages was also limited to wages up to 150% of median earnings to prevent owners from simply raising their own wages to earn credit.<sup>2</sup>

In 2021, the Legislature passed LB 366, which loosened the family relationship restrictions. It also increased the tax credit from a lifetime cap of \$10,000 to \$20,000 so companies that had previously maxed out could reapply.

## Program Use

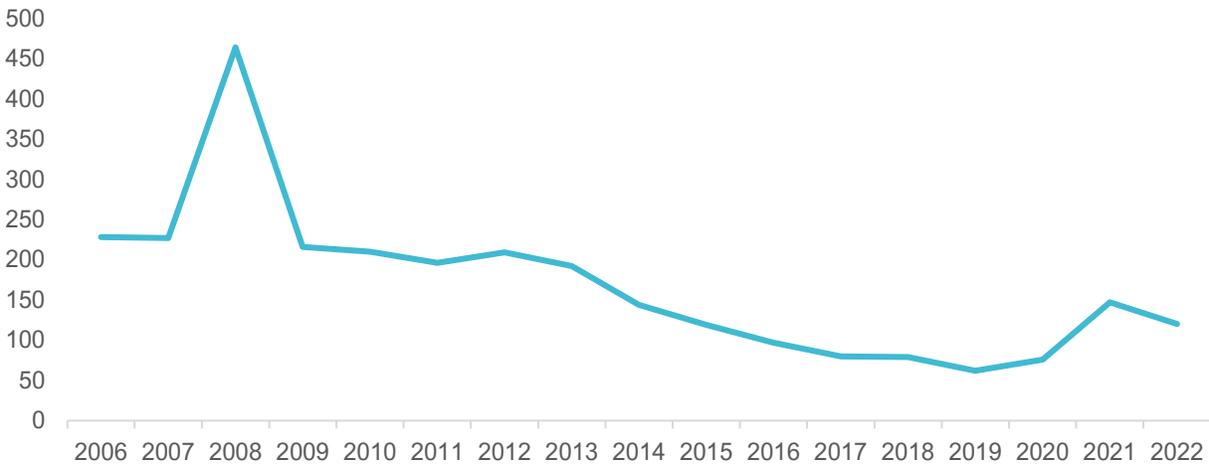
Through 2022, there have been 2,866 applications to the program that were approved by Revenue. Overall, participation in the program saw a steady decline from 2009 to 2020 (Figure 1.1). The spike in **approved applications** in 2008 reflects a one-year occurrence when all available credits were requested on the first day. Revenue approved all applications, prorating the \$2 million allocation cap amongst all applicants.

There may be two potential reasons that participation increased in 2021: the COVID-19 pandemic and the provisions of LB 366 that loosened the family relationship restrictions and increased the lifetime cap (discussed more on pages 14-16). See Appendix A for a more detailed breakdown of approved applications.

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<sup>2</sup> Nebraska Legislature, *LB 177 (2008) Legislative History*, remarks by Senator Ray Janssen, May 30, 2007.

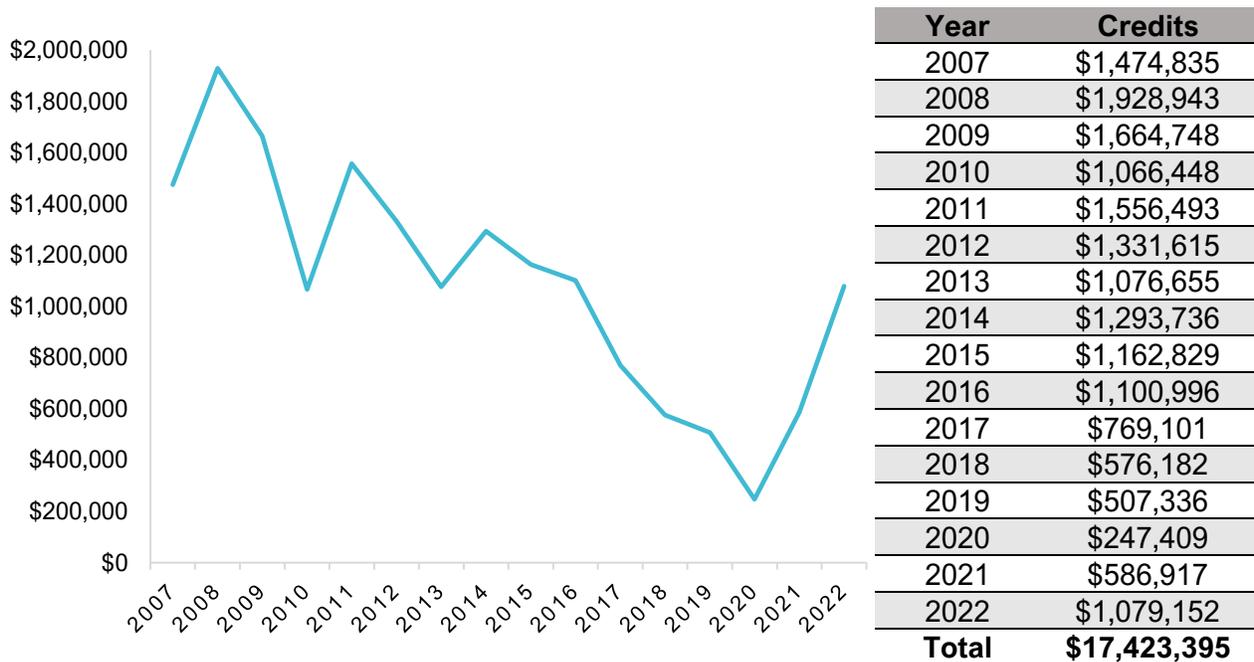
**Figure 1.1. After 2008, approved applications steadily decreased until 2020.**



Source: Audit Office compilation of Department of Revenue data.

Program participants earned a total of \$17.4 million in credits from 2007 (the first year credits were received) to 2022 (Figure 1.2).<sup>3</sup> The number of **earned credits** shows a general downward trend from 2008 before increasing over the last two years for which we have data.

**Figure 1.2. In 2022, credits earned surpassed \$1 million for the first time in 6 years.**

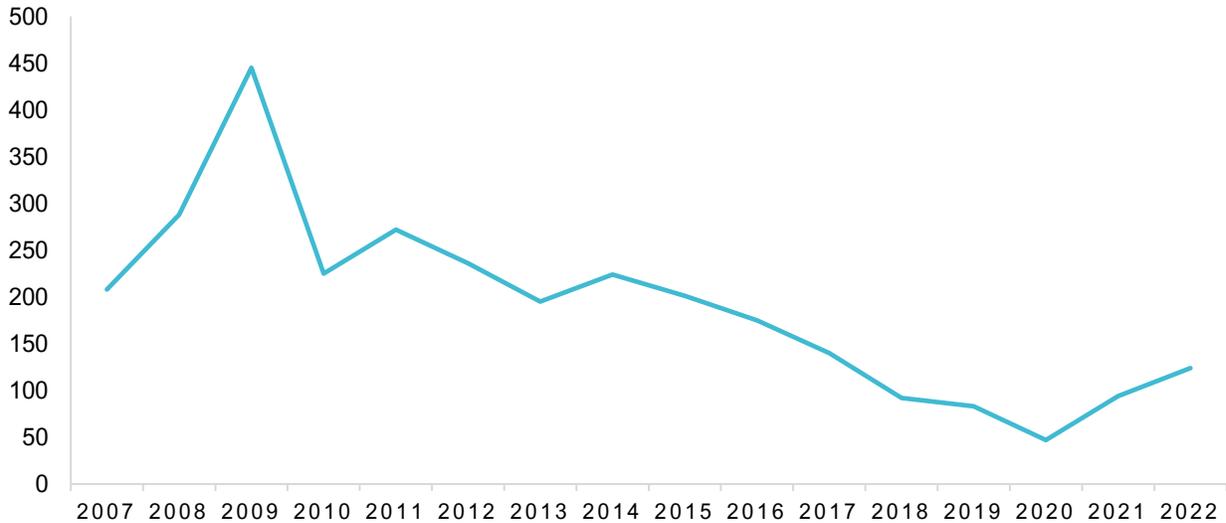


Source: Audit Office analysis of Department of Revenue data.

<sup>3</sup> 2022 was the most recent year of full available data. The amount of credits in Figure 1.2 reflect the amount of revenue that was foregone by the state in that calendar year. These numbers will be different than what is reported from the Department of Revenue in their annual reports. Revenue reports credits by participant application year, whereas we organize them by the year Revenue approved them for use.

Between 2007 and 2022, 2,378 unique entities received Microenterprise program credits. The number of firms receiving credit ranged from a low of 46 in 2020 to a high of 445 in 2009 (Figure 1.3).

**Figure 1.3. The total number of firms receiving credits has steadily declined after 2009.**

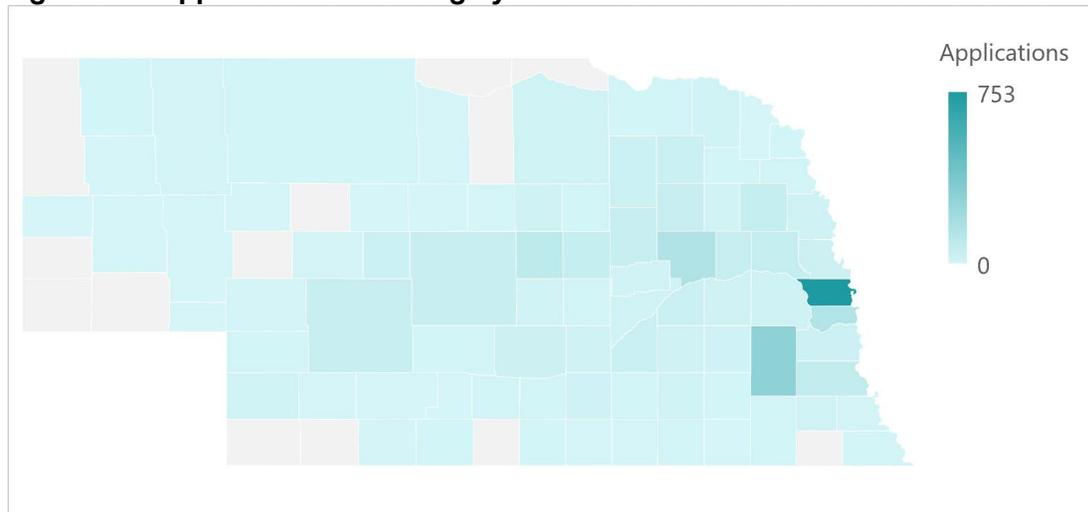


Source: Audit Office analysis of Department of Revenue data.

### Geographic Distribution

Statewide, 80 of Nebraska’s 93 counties (86%) had **approved applications** (Figure 1.4). Forty-six counties had at least 10 applications approved; 34 counties had fewer than 10. Unsurprisingly, the state’s most populous county, Douglas, had the most approved applications with 753, followed by Lancaster with 291, Platte with 150, Sarpy with 145, and Valley with 95. The top five counties comprised 50% of approved applications while the 34 counties that each had less than 10 applications were only 5%.

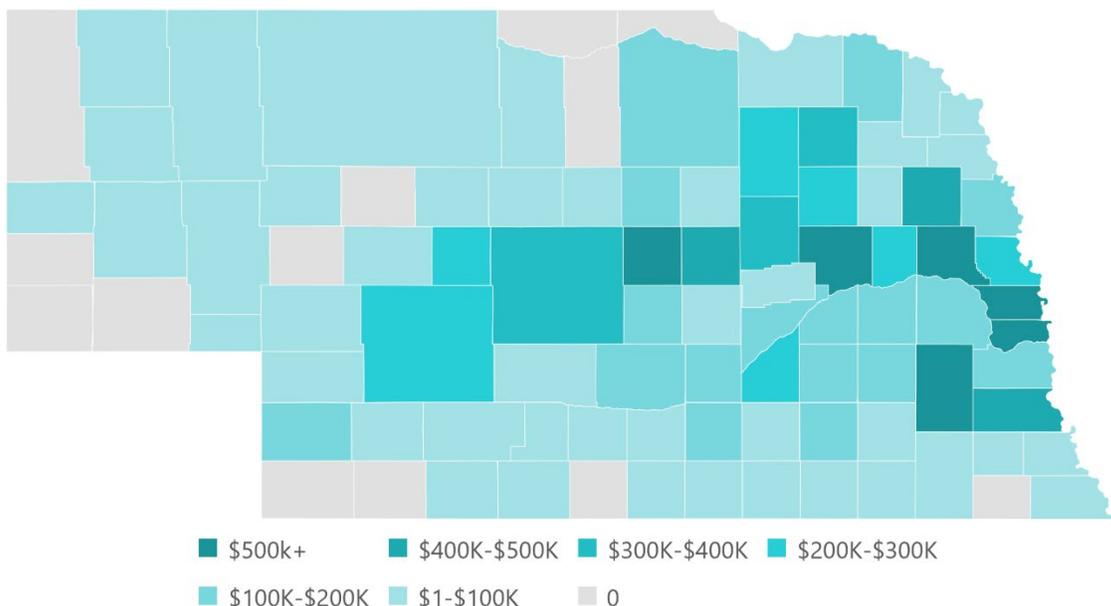
**Figure 1.4. Applications were largely concentrated in the eastern half of the state.**



Source: Audit Office compilation of Department of Revenue data.

Participants in the Microenterprise program **earned credits** in 80 counties (Figure 1.5).<sup>4</sup> As with the number of approved applications, entities in the state’s highest population counties received the most credits. Douglas County had the most credits with almost \$4.9 million, followed by Lancaster with \$1.8 million, Sarpy with \$885,954, Platte with \$786,535, and Valley with \$592,556.<sup>5</sup> Lancaster, Douglas, and rapidly growing Sarpy County accounted for \$7.6 million of earned credits, or 43%. The top five counties earned over half (51%) of the credits while the 39 counties with less than ten participants comprised only \$984,718, or 6% of credits.

**Figure 1.5. Six counties received more than \$500,000 in program credits.**



Source: Audit Office analysis of Department of Revenue data.

### County Per Capita Benefits

We looked at county populations to determine per capita benefits in two ways: for the life of the program and for the time period since our last report, 2018 to 2022. The all-years analysis showed that less populous counties received more benefits per person despite receiving fewer total credits (Figure 1.6). Three counties had per capita benefits received for the life of the program over \$100: Logan (\$303 per person), Greeley (\$187 per person), and Valley (\$146 per person). In contrast, the two largest counties received much smaller per-capita benefits—Douglas was \$8 per person and Lancaster was \$6 per person. See Appendix B for the exact per capita dollar amounts by county.

<sup>4</sup> To protect taxpayer confidentiality, we can only disclose exact amounts of credits received in the 41 counties where at least 10 individuals received credits.

<sup>5</sup> Dodge County is the only other county that received more than \$500,000 in program credits.



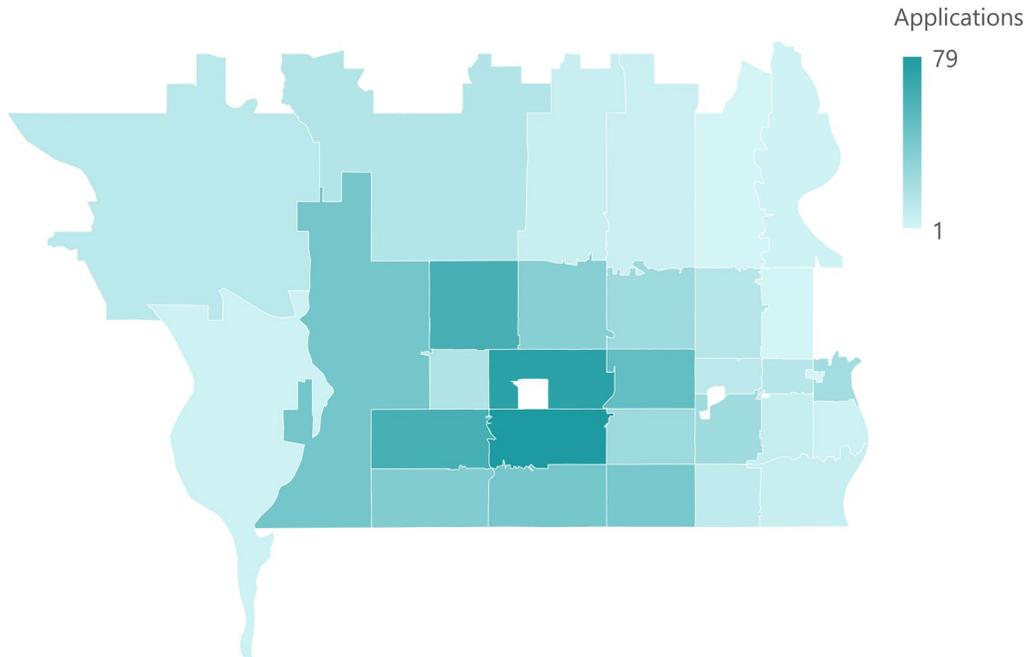
## Omaha and Lincoln

At the hearing for the legislation that created the Microenterprise program, a proponent claimed that the program would specifically benefit North and South Omaha.<sup>6</sup> Because that was an area of interest, we took a closer look at Omaha to compare historic areas of high poverty and low employment with wealthier areas. Disclosure rules prevent us from reporting credits at a geographic level smaller than statewide if there are fewer than 10 individuals receiving credits, however, we can report the number of participants that have approved applications.

Douglas county zip codes had 753 total approved applications. The zip codes that contain the heart of North Omaha—68110, 68111, and 68112—had a combined four approved applications. The South Omaha zip codes—68105, 68107, and 68108—had 17 approved applications.

When North and South Omaha applications are compared to other areas in the county, this number is eclipsed by zip codes to the west including West Omaha’s 68144 and 68154 with 79 and 73 applications respectively (Figure 1.8). North and South Omaha account for less than 3% of approved applications for Douglas County, whereas these West Omaha zip codes account for over 20%.

**Figure 1.8. Douglas County applications were mostly concentrated in West Omaha and the southwestern part of the county.**

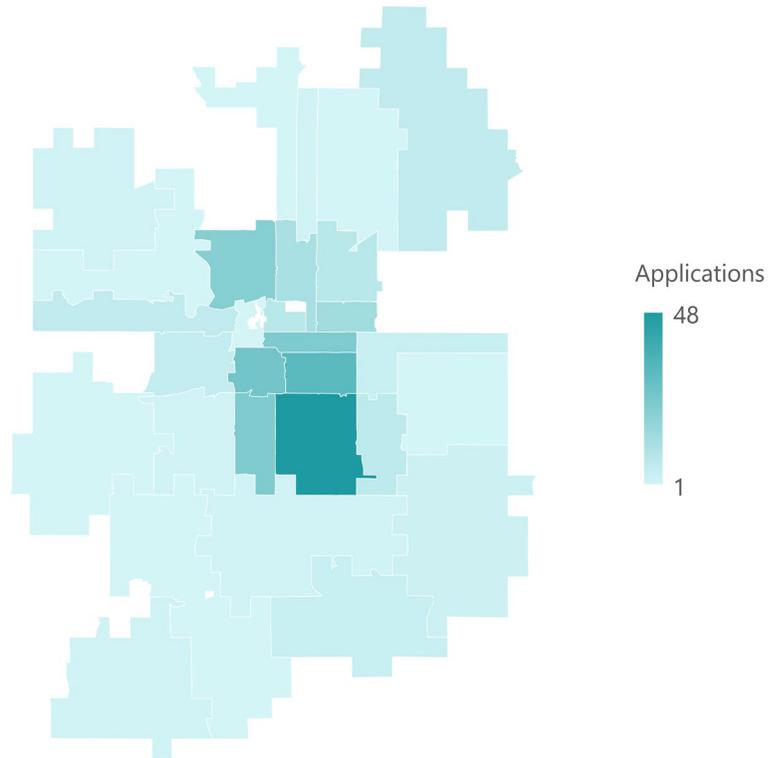


Source: Audit Office analysis of Department of Revenue data.

<sup>6</sup> Nebraska Legislature, Revenue Committee, *LB 309 (2005) Transcript*, testimony of the Director of Omaha Chamber Minority Economic Development Council, February 9, 2005, p. 40.

As a comparison, we also looked at the city of Lincoln which had similar results (Figure 1.9). South and southeastern Lincoln, which are generally higher income/lower poverty neighborhoods compared to other parts of Lincoln, have much more participation in the program than was seen in north and northwestern Lincoln, which historically have been lower income and higher poverty.

**Figure 1.9. The 68516 zip code in South Lincoln had the most applications.**

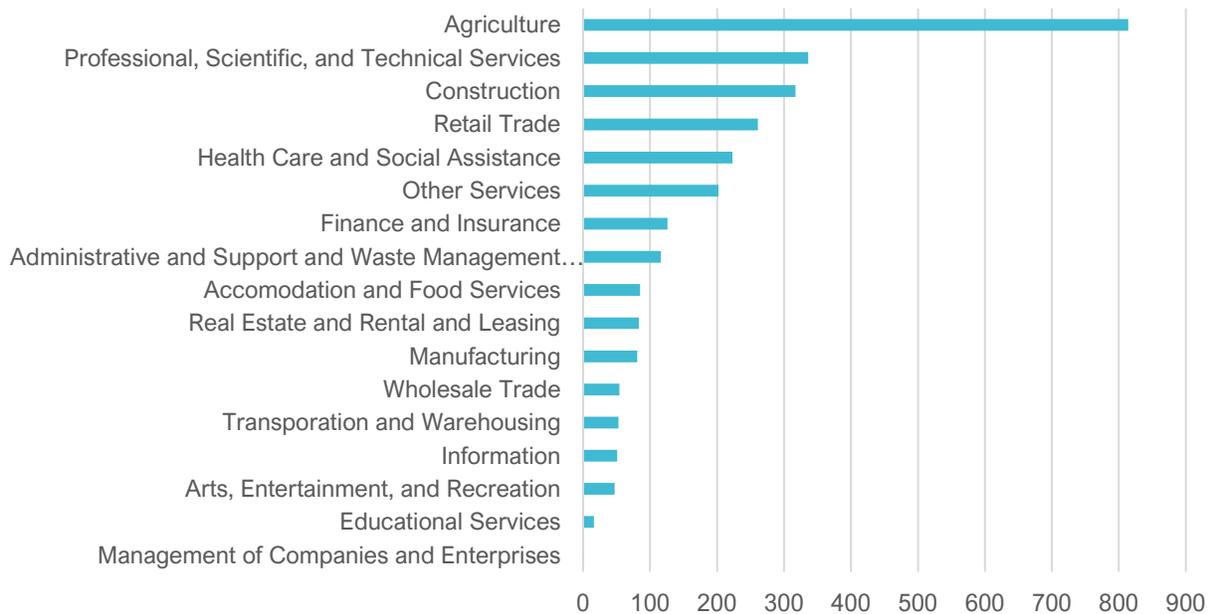


Source: Audit Office compilation of Department of Revenue data.

### **Industry Breakdown**

To more closely examine how the program impacted the economy, we identified which industries had the highest participation in the program. We found the industry sector of each participating company using the North American Industry Classification System (NAICS) of numeric codes. This system categorizes industry types and identifies 20 different industry sectors into two-digit codes. The Agriculture sector had the most **approved applications**—814 or 28% of the total (Figure 1.10).

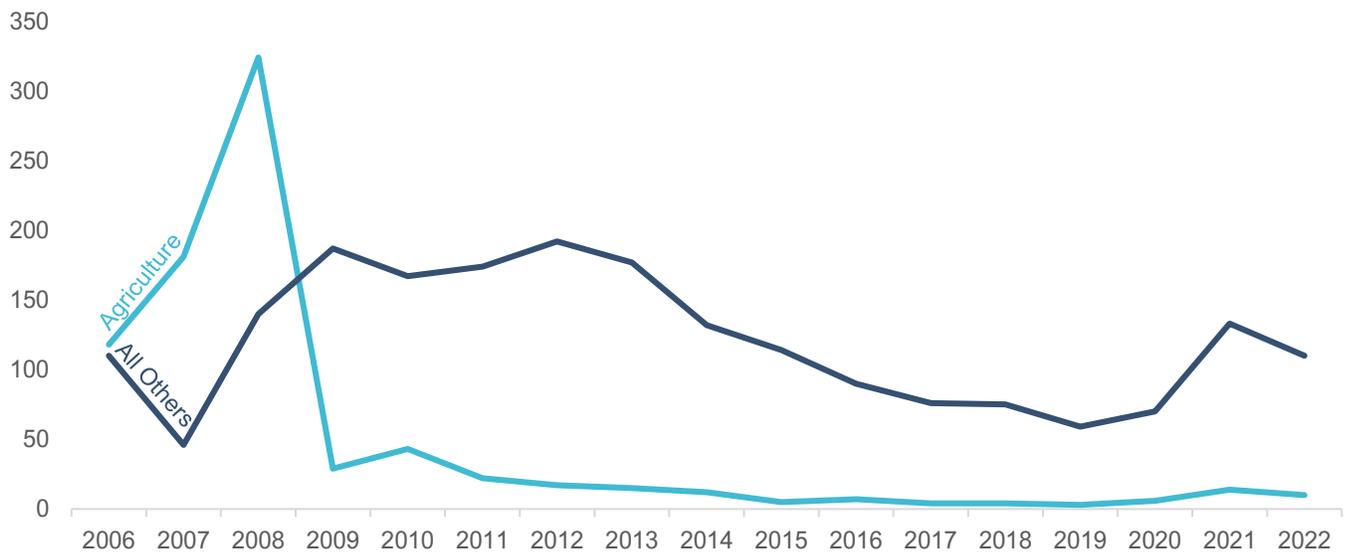
**Figure 1.10. The Agriculture sector had the most approved applications.**



Source: Audit Office analysis of Department of Revenue data.

The number of **approved applications** from the Agriculture sector decreased abruptly after 2008 (Figure 1.11), likely due to legislative changes to qualified agricultural activities as discussed on page 4. The other four industry sectors that make up the top five were: Professional, Scientific and Technical Services (law firms, scientific research, software engineers) at 12% of total applications; Construction at 11%; Retail Trade at 9%; and Health Care and Social Assistance (doctors, therapists, day cares) at 8%. These five account for 68% of the total of approved applications. For the number of applications in each industry sector by year, see Appendix C.

**Figure 1.11. Approved applications by the Agriculture sector significantly decreased over time.**



Source: Audit Office analysis of Department of Revenue data.

From 2007 to 2022, entities that **earned credits** were reflected in 17 industry sectors (Figure 1.12). Five industries together account for close to two thirds of earned credits.<sup>7</sup> By far, the industry with the most earned credits is Agriculture with about 30% of the total over the life of the program (although Agriculture credits have decreased dramatically since 2008). The combined industries of Professional, Scientific and Technical Services and Management of Companies and Enterprises were 13% of earned credits. The Construction sector was 11% of credits and Health Care and Social Assistance was 9%.

**Figure 1.12. Seventeen industries generated credits through the program.**

Industry Sector (NAICS Code Number)*	Earned Credits	Percent**
Agriculture (11)	\$5.1 M	30%
Professional, Scientific, and Technical Services (54) Management of Companies and Enterprises (55)	\$2.2 M	13%
Construction (23)	\$1.9 M	11%
Health Care and Social Assistance (62)	\$1.6 M	9%
Retail Trade (44 & 45)	\$1.3 M	8%
Other Services (81)	\$1.2 M	7%
Finance and Insurance (52)	\$0.9 M	5%
Administrative and Support and Waste Management and Remediation Services (56)	\$0.6 M	4%
Manufacturing (31-33)	\$0.5 M	3%
Accommodation and Food Services (72)	\$0.5 M	3%
Real Estate and Rental and Leasing (53)	\$0.4 M	3%
Wholesale Trade (42)	\$0.3 M	2%
Transportation and Warehousing (48 & 49)	\$0.3 M	2%
Arts, Entertainment, and Recreation (71)	\$0.3 M	2%
Information (51)	\$0.2 M	<1%
Educational Services (61)	\$0.1 M	<1%

Source: Audit Office analysis of Department of Revenue data and U.S. Census NAICS webpage information.

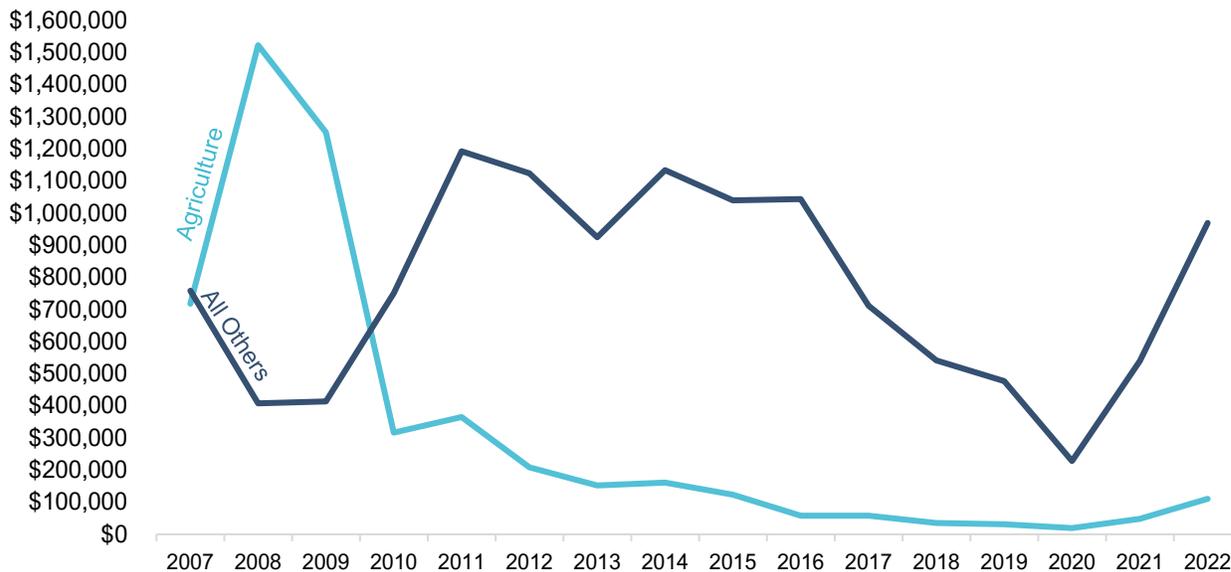
\*Sectors 54 and 55 were combined to maintain confidentiality.

\*\*Does not equal 100% due to rounding.

In 2008 and 2009, the Agriculture industry received more program credits than all other sectors combined (Figure 1.13). Since 2012, other individual industry sectors have consistently overtaken Agriculture in annual earned credits: Construction; Health Care and Social Assistance; and the combined industries of Professional, Scientific and Technical Services and Management of Companies and Enterprises.

<sup>7</sup> Sectors 54 and 55 were combined to maintain confidentiality.

**Figure 1.13. The amount of program credits earned by Agriculture businesses have significantly decreased over time.**



Source: Audit Office analysis of Department of Revenue data.

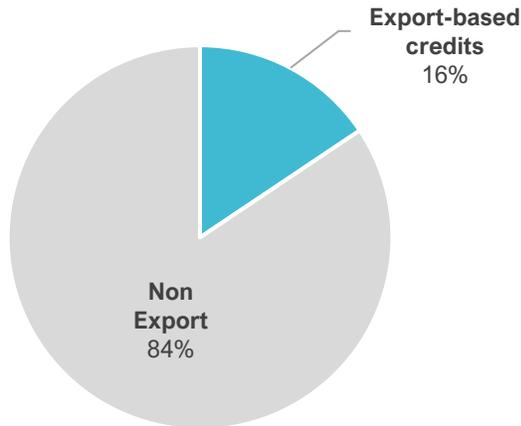
### Export-based Industries

We also examined which Microenterprise participants were in export-based industries because incentivizing businesses that sell across the country or in the global market generally helps to attract outside money into the state.<sup>8</sup> Subsidizing companies that sell locally, or in-state, is more likely to give a competitive advantage to one local company over those that are not receiving benefits. This does not encourage new economic activity or benefits for the state and instead encourages the cannibalization of local employment—where employees and/or other business activity moves from local businesses to the incentivized business.<sup>9</sup> When looking at program credits, 16% went to businesses in one of the top subsectors for export-based activity (Figure 1.14).

<sup>8</sup> We found the top ten exporting industries by two-digit NAICS code and the amount of credits the program provided to them.

<sup>9</sup> Timothy J. Bartik, “Who benefits from Economic Development Incentives? How incentive Effects on Local Incomes and the Income Distribution Vary with Different Assumptions about Incentive Policy and the Local Economy.”, *W.E. Upjohn Institute for Employment Research*, March 1, 2018.

**Figure 1.14. Companies in top export industry subsectors received about 16% of Microenterprise program credits.**



Source: Audit Office compilation of Department of Revenue data.

Microenterprise businesses were in eight of the top ten export-based subsectors.<sup>10</sup> The top export-based subsectors together accounted for 352 firms and \$2.7 million, 11% of total firms and 16% of total earned credits from 2007 to 2022 (Figure 1.15). The vast majority of this was the Professional, Scientific, and Technical Services subsector, which made up 80% of both the number of entities (282) and amount of credits (\$2.2 million).

**Figure 1.15. More than half of the export-based subsectors are in manufacturing.**

Top Export-based Industry Subsectors (NAICS Code Number)*	Companies	Earned Credits
Professional, Scientific, and Technical Services (541)	282	\$2,183,437
Merchant Wholesalers, Durable Goods (423)	30	\$185,977
Merchant Wholesalers, Nondurable Goods (424)	12	\$96,083
Chemical Manufacturing (325)	11	\$95,250
Fabricated Metal Product Manufacturing (332)	8	\$74,114
Support Activities for Transportation (488)	5	\$44,718
Machinery Manufacturing (333)	4	\$29,080
Transportation Equipment Manufacturing (336)		
<b>Total</b>	<b>352</b>	<b>\$2,708,659</b>

Source: Audit Office analysis of Department of Revenue data and U.S. Census NAICS webpage information.

\*Sectors 325 and 332 were combined to maintain confidentiality.

### COVID-affected Industries

As stated previously, both program participation and credits were up in 2021, the second year of the pandemic. Because of this, we examined how the incentive interacted with industries most affected by the pandemic. To determine which industries to analyze, we looked at a Nebraska Department of Labor publication that showed the percentage of business establishments reporting pandemic-related layoffs in 2020.<sup>11</sup> From that group,

<sup>10</sup> No businesses were in the Primary Metal Manufacturing or Computer and Electronic Product Manufacturing subsectors.

<sup>11</sup> Nebraska Department of Labor, *Statewide COVID Impacts and Teleworking Report*, Sept. 2021, p. 10.

we took the top five industries of both temporary and permanent lay-offs to arrive at our list of most COVID-affected industries.<sup>12</sup>

The sectors of Information, Management of Companies and Enterprises, Educational Services, Accommodation and Food Services, and Other Services saw increases to varying degrees during the pandemic (Figure 1.16). However, the Manufacturing sector and Arts, Entertainment, and Recreation sector received fewer credits during the pandemic than before it.

**Figure 1.16. The Manufacturing sector and the Arts, Entertainment, and Recreation sector earned less credits during COVID-19 than before while the other sectors earned more.**

Industry Sector (NAICS Code Number)	2018-2019 Credits	2020-2022 Credits	Percentage Difference
Other Services (81)	\$154,467	\$253,647	64%
Manufacturing (31-33)	\$61,058	\$25,400	-43%
Accommodation and Food Services (72)	\$54,518	\$65,242	20%
Arts, Entertainment, and Recreation (71)	\$47,904	\$40,969	-15%
Information (51)	\$13,728	\$47,546	246%
Educational Services (61)	\$0	*	
Management of Companies and Enterprises (55)	\$0	*	

Source: Audit Office analysis of Department of Revenue data and U.S. Census NAICS webpage information.

\*Cannot report due to confidentiality.

## Policy Issues Follow-Up from 2018 Audit Report

In our 2018 audit report on the Microenterprise Tax Credit, we issued a finding raising concerns about the program, including:

1. Risk that participants may receive credit for activities not intended by the Legislature.
2. The program is difficult to administer.
3. Aspects of the program make it difficult for individuals to comply with requirements.

While there have been program changes to address these issues (discussed below), it does not seem to be enough to have fully corrected the problems. Because of this, we reaffirm our 2018 position on policy issues.

**Finding:** Compared to other incentive programs administered by the Department of Revenue, aspects of the Microenterprise Tax Credit Act: 1) increase the risk that participants may receive credit for activities not intended by the Legislature, 2) make the program more difficult for the Department to administer, and 3) make it difficult for individuals to comply with program requirements.

<sup>12</sup> Ten industries were in the top five in both permanent and temporary layoffs, but Accommodation and Food Services; Arts, Entertainment, and Recreation; and Management of Companies and Enterprises overlapped so our combined list has only seven.

## **Administrative Changes**

Since the release of our previous Microenterprise report, the Legislature eliminated the restriction on related parties. Prior to this change, if a close relative of an applicant had received the credit, that applicant could be disqualified from the program. The removal of this restriction has made administering the program easier because the Department of Revenue does not have to investigate family relationships of applicants.

Revenue has also made changes to help streamline the administration of the Act. They amended the program's application guide and tax return form for clarity. They have also brought a new database system online which will better track applications.

These changes have made marginal improvements to Revenue's administration of the program, however. Revenue staff affirm the larger issues we raised in our 2018 report still remain and would likely need to be addressed through legislation.

## **Potential Depressive Effect on Participation**

In our 2018 report, we said that program compliance issues—including relatively large amounts of paperwork and recordkeeping as well as confusion around statutory language—had led to a potential depressive effect on participation. For some Certified Public Accountants (CPAs), the compliance cost was outweighing the benefit of the credit and, due to this, they were not recommending the program or assisting clients with it.<sup>13</sup>

Because LB 366 (2021) doubled the lifetime limit of the credit to \$20,000, we wanted to know if that increase was enough to offset the compliance burden enough for CPAs to recommend and assist with the program. To gain insight on this issue, we asked the Nebraska Society of CPAs if program compliance difficulties were a concern and if the increase to \$20,000 in lifetime credits made them more likely to suggest the program to clients. Because this was not a formal survey and we received responses from only five individuals, these comments should not be treated as definitive evidence.

Four of the five respondents said the original \$10,000 credit was not worth the difficulty to comply with program requirements. Even with the increase to \$20,000, only one respondent affirmatively said that they recommend the credit to their clients. This suggests that while the increase in benefits may have made the program more attractive, it is likely still not large enough to overcome the compliance issues for tax professionals. An individual attempting to get the credit may weigh this issue differently—they would save money by doing it themselves but may be less equipped to successfully navigate the program requirements.

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<sup>13</sup> Nebraska Legislature, Performance Audit Committee, *The Nebraska Advantage Microenterprise Tax Credit Act: Performance on Selected Metrics*, November 2018, p. 13.

## **SECTION II: Analysis of Metrics**

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Before presenting the Nebraska Advantage Microenterprise Tax Credit Act's audit scope questions and the metrics used to answer each, we note several points that will aid in the understanding of the audit results and findings.

### **Causation**

The biggest issue when evaluating tax incentive programs is that it is often impossible to show that a program *caused* any specific results. There are many other factors that can influence a participants' decision-making that are unaccounted for in this report. We do not claim that the program caused the results we report.

### **Results**

The results for each metric describe the product of the analysis we conducted. For example, if the metric was whether program spending increased over time, we report whether it did or not as the result. Results do not include judgments about how well the program is succeeding.

### **Findings**

Findings involve making a judgment about how the program results on a given metric compare to a standard. For example, a program that increased spending over time, the standard could be the increase or decrease in that type of spending for the United States as a whole. Our finding, in that instance, would be whether there was a difference in Nebraska's rate of spending and the US rate of spending.

### **Taxpayer Confidentiality**

Federal and state law restrict release of most taxpayer data, with certain specified exceptions. In general terms, laws protecting taxpayer confidentiality require reporting figures that include three or more companies if the results are statewide, and 10 or more companies if the results are from a smaller portion of the state.

## Scope Questions and Metrics

The Performance Audit Committee asked the Legislative Audit Office to answer five broad questions regarding the Microenterprise Act, utilizing the metrics listed below each question. The Committee also requested that the Office look at the cost to comply with the Act, which is addressed in Section I, as well as what could be done to improve future audits, which is addressed throughout the report as needed.

Each metric clearly states the time period examined: for the Urban and Rural Activity, Distressed Areas Activity, High-tech and Renewable Energy Companies, and Economic Modeling metrics, we looked at the life of the program, 2007 to 2022. For the Jobs, Wages, New to Nebraska, and Cost Per Job metrics, we looked at 2020 to 2022 (the three most recent years for which there was complete Department of Labor data). For the Urban and Rural Activity metric, some analyses are for the life of the program and others are for the more recent years only.

1. Is the Microenterprise Act meeting the goal of strengthening the state's economy overall by attracting new business to the state, expanding existing businesses, and increasing employment?
  - **Jobs:** How many new jobs were created by incentivized companies? What industries are creating jobs?
  - **Wages:** How many businesses increased wages?
  - **New to Nebraska:** How many businesses were new to Nebraska?
2. Is the Act meeting the goal of revitalizing rural and other distressed areas?
  - **Urban and Rural Activity:** To what extent is the program being utilized in rural areas? What industries are receiving credit in rural areas?
  - **Distressed Areas Activity:** To what extent is the program being utilized in connection with distressed areas? What industries are receiving credit?
3. Is the Act meeting the goal of diversifying the state's economy and positioning Nebraska for the future by stimulating entrepreneurial firms, high-tech firms, and renewable energy firms?
  - **High-tech and Renewable Energy Companies:** To what extent is the program being utilized by high-tech firms? To what extent is the program being utilized by renewable energy firms?
4. What are the Act's economic and fiscal impacts?
  - **Cost Per Job:** What is the program's cost per job?
  - **Economic Modeling:** What does economic modeling tell us about the impact of the Act?
  - **Cost to Administer:** What is the cost to administer the Act?
5. Are adequate protections in place to ensure the fiscal impact of the Act does not increase substantially beyond the state's expectations in future years?
  - **Fiscal Protections:** What are the fiscal protections in the Act?
  - **Transparency:** What program information is available to the public?

# Metric 1: Jobs

## Results

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For Microenterprise projects that earned credits from 2020 to 2022, we identified an increase of 468 total jobs.

## Discussion

We identified employment records for 179 out of the total 238 entities that received Nebraska Advantage Microenterprise Tax Credit Act (Microenterprise Act) credits from 2020 to 2022.<sup>14</sup> We found average annual employment—using total jobs, not full-time equivalents—in their base year and compared them to the average annual employment in their second project year. These numbers reflect total employment which includes full and part-time employees. This means that on average, credit-earning entities in this period created about two jobs each.

For this time period, 144 companies increased employment, 13 companies decreased employment, 23 companies saw no employment change, and 1 company did not have enough information available.<sup>15</sup> Credits are earned through increases in employment spending (total compensation) and investment. The program does not require that taxpayers increase employment so examples of decreased employment are not necessarily evidence that anyone improperly received credits.

The individual company with the largest job increase had about 30. The company that lost the most jobs had a decrease of about 7. The individual sectors with the largest job growth were in the service industry: Accommodation and Food Services (bars, restaurants, coffee shops), Health Care and Social Assistance (doctors, therapists, day cares), and Educational Services (schools, private tutoring, training centers) (Figure 2.1).

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<sup>14</sup> We calculated employment changes by finding each company's average employment in their base year and comparing it to their average employment in the second (final) year of their project. Those companies generated a net 467.75 increase in average yearly employment, rounded to 468.

<sup>15</sup> Although there were 179 identified companies, two of them received credit for two separate projects. One company had a base year that was outside of the data we requested from the Department of Labor, so an increase or decrease could not be calculated.

**Figure 2.1. Health Care and Retail Trade had the highest average annual net job increase.**

<b>Industry Sector (NAICS Code Number)*</b>	<b>Companies**</b>	<b>Net Job Increase***</b>
Health Care and Social Assistance (62)	28	80
Retail Trade (44-45)	18	70
Accommodation and Food Services (72)	5	68
Construction (23)	31	42
Other Services (81)	19	42
Professional, Scientific, and Technical Services (54)	37	35
Arts, Entertainment, and Recreation (71)	3	35
Management of Companies and Enterprises (55)	3	26
Educational Services (61)		
Administrative and Support and Waste Management and Remediation Services (56)	13	16
Information (51)	6	16
Real Estate and Rental Leasing (53)	4	16
Manufacturing (31-33)	3	10
Transportation and Warehousing (48-49)	3	7
Finance and Insurance (52)	5	6
Agriculture (11)		
Wholesale Trade (42)	3	3
<b>Total</b>	<b>181</b>	<b>468</b>

Source: Audit Office compilation of Department of Labor QCEW and U.S. Census NAICS webpage information.

\*Sectors 55 and 61, and sectors 11 and 42 were combined to maintain confidentiality.

\*\*Numbers may not sum to totals because some businesses received credit in multiple years. Two companies had two separate projects in this time period.

\*\*\*Totals do not sum due to rounding of averaged numbers.

# Metric 2: Wages

## Results

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From 2020 to 2022, the estimated average wage for jobs at participating firms was about \$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.

## Discussion

The Department of Labor provided the Audit Office with wage records for companies that received credit from 2020 to 2022. We saw a wide variety in wages at companies incentivized by this program, typically well below the state average. Some incentivized companies actually decreased their average wages paid to employees.

Of the 179 companies we could match with Labor information, 65 increased their average wages and 21 had an average wage decrease.<sup>16</sup> One company paid exactly the same average wages.<sup>17</sup> There were 94 companies where a wage change couldn't be calculated.<sup>18</sup> These were either start-ups or established companies hiring for the first time.

An estimated \$21.3 million in total wages were paid to an estimated 808 average yearly employees in the second year of companies' projects.<sup>19</sup> This resulted in an estimated average wage of a little over \$26,000 for employees working for companies that received Microenterprise credits from 2020 to 2022.

For the same time period, Nebraska's average wage was just over \$54,000.<sup>20</sup> There were 36 companies that had average wages higher than the state average and 139 that were lower.<sup>21</sup> The highest average wage for an individual company was a little below \$300,000 per year. The lowest average wage was a little over \$900.

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<sup>16</sup> This adds up to 181 because two companies we matched received credits on two different projects in this time period. Both of those companies increased average wages in both of their projects.

<sup>17</sup> There were 238 unique entities that received credits from 2020-2022. Many were for self-employed individuals or businesses that did not have employees.

<sup>18</sup> These companies either didn't have employees or they had no wages in the base year but did have wages in the second year of their projects.

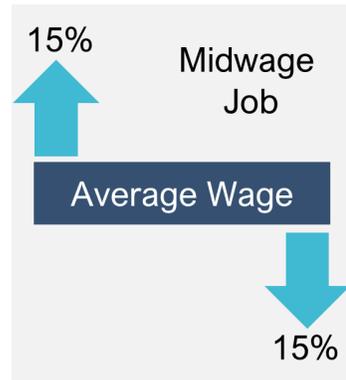
<sup>19</sup> These are estimates because data for 2022 was only available through the 2<sup>nd</sup> quarter when we requested it. For employment and wages in 2022, the average employment and wages for those two quarters assumed to be consistent throughout the year.

<sup>20</sup> The program's estimated average wage and the state's average wage include both full-time and part-time employees. For Nebraska state averages, the total number of employees for 2020, 2021, and 2022 were added together. The total wages for those same years were then added together, and divided by the sum of the total employees.

<sup>21</sup> Comparison to the state average was for the 2<sup>nd</sup> year of their projects. Six companies didn't have wages or employment in the second year of their project so they couldn't be compared to the state average. They may have received credits for employment activity in their first year, or only for investment activity. This adds up to 181 because two companies received credits for two projects in this time period.

## Midwage Jobs

Recent research suggests that the creation of midwage jobs significantly increases the real earnings for the typical local labor market. Midwage employment may especially help residents without a bachelor’s degree because these jobs pay relatively well without a requirement for advanced education.<sup>22</sup>



Due to data limitations, we were not able to replicate the methodology described in this research, however, we attempted to approximate it by using publicly available information. We defined a midwage job as one that has wages ranging between 15% above and 15% below average wages.

Because of the discrepancies in average wages in less populous counties compared with more populous ones, we calculated two ranges. A lower range was used for comparing companies in the 90 least populated counties and a higher range was used for Douglas, Lancaster, and Sarpy. For these counties, the range was a yearly average wage between \$55,000 to \$70,000. For the other 90 counties, the range was \$40,000 to \$55,000.

In the 90 less populous counties, there was a net increase of 13 midwage jobs between companies’ base year and the second year of their project (Figure 2.2). In the other 3 counties, there was a net increase of 19 midwage jobs. For the years we examined, this program does not seem to have provided a significant impact on midwage employment in the state as we have defined it.

**Figure 2.2. Increases in midwage jobs were minimal in all counties.**

Location	Midwage Range	Net Increase in Midwage Jobs
Douglas, Sarpy, Lancaster	\$55,000 to \$70,000	19
All Other Counties	\$40,000 to \$55,000	13

Source: Audit Office compilation of Department of Revenue data.

<sup>22</sup> Timothy J. Bartik, “What Types of Local Job Creation Most Benefit Residents?,” *W.E. Upjohn Institute for Employment Research*, August 4, 2022.

# Metric 3: New to Nebraska

## Results

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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.

## Discussion

For tax incentive audits, statute defines a new business as a person or unitary group<sup>23</sup> participating in a tax incentive program that did not pay income taxes or wages in the state more than two years prior to submitting an application under the tax incentive program. Due to the nature of the businesses that participate in the Microenterprise program and the number of businesses, we instead examined each participant’s application date and compared it with the earliest date of operation we could find.

Using this methodology, we determined that out of the 239 businesses that received credits from 2020 to 2022, 107 were companies that were new to the state and 108 were for established businesses (Figure 2.3).<sup>24</sup> There were 25 participants, all of whom received credit as sole proprietors, that did not have enough information available to reliably determine their status. New companies received a nearly identical amount of credits (\$854,619) as established ones (\$866,074) in the years we examined. The companies whose new to Nebraska status could not be determined received \$192,785.

**Figure 2.3. The number of companies that were new to Nebraska increased every year.**

Business Status*	2020	2021	2022	Earned Credits
Established	20	36	62	\$866,074
New	22	48	51	\$854,619
Unable to Determine	5	10	12	\$192,785

Source: Audit Office compilation of Department of Revenue and Secretary of State information.  
 \*Numbers in this table may not sum to totals because some businesses received credit in multiple years.

<sup>23</sup> A unitary group is multiple companies that file a single tax return. This means that a group of corporations are operating as a single economic unit under common ownership. Using this term in the definition of a new business prevents a new subsidiary of an existing entity from being considered as a new business. They are instead considered as an expanding existing business.

<sup>24</sup> The numbers of new, established, and unable to determine companies adds up to 240 and not 239 because one company earned credits with two separate projects. In their first project, they were determined to be a new company. However, for the second project they were determined to be an established company.

# Metric 4: Urban and Rural Activity

## Results

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Rural areas saw more investment and benefits in the early years of the program. However, a large decline in rural participation after 2009 resulted in more credits going to urban areas in recent years, with credits about evenly split between urban and rural areas over the life of the program.

From 2020 to 2022, the Agriculture sector received the most credits in rural areas while the Professional, Scientific and Technical Services sector received the most credits in urban areas. Of the estimated 468 total job increase during this time period, there was a net increase of 104 jobs (22% of total) in rural areas and a 364 net job increase (78%) in urban.

## Discussion

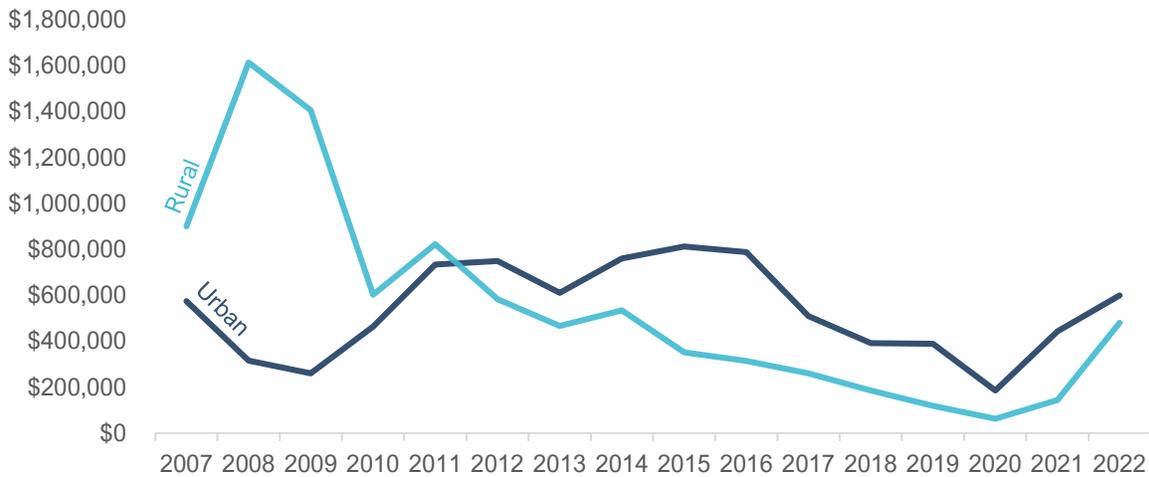
Using the Legislature's definition, 17 cities in the state are urban and all other locations are rural.<sup>25</sup> Of the \$17.4 million in credits earned from 2007 to 2022, a little more than half went to rural areas.

As discussed in Section I, in 2008, the Legislature limited the number of people that qualify for the Microenterprise program by imposing a cap on the net worth an individual can have for most agricultural business activities, causing applications for agricultural businesses to drop in 2009. Urban credit use has varied over the years, peaking at a little over \$800,000 in 2015 and bottoming out at under \$200,000 in 2020 (Figure 2.4). Both urban and rural credit use increased after 2020. This might be related to the COVID-19 pandemic and legislation increasing credit caps and loosening participation restrictions. For a more detailed breakdown of urban and rural credit activity, see Appendix D.

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<sup>25</sup> For tax incentive evaluations, the definition of rural area is found in Neb. Rev. Stat. § 50-1209. Rural area means "any village or city of the second class in this state or any county in this state with fewer than twenty-five thousand residents." Effectively, this means that the cities of Omaha, Ralston, Lincoln, Bellevue, Gretna, La Vista, Papillion, Grand Island, Kearney, Fremont, Gering, Scottsbluff, Norfolk, North Platte, Columbus, Hastings, and Plattsmouth are urban areas and all other locations in the state are rural.

**Figure 2.4. Urban credit use has been higher than rural since 2012.**



Source: Audit Office analysis of Department of Revenue data.

### Activity by Industry

Urban areas had more credits in Professional, Scientific, and Technical Services; Health Care and Social Assistance; and Construction while investment in urban areas was highest in Health Care and Social Assistance; Arts, Entertainment and Recreation; and Professional, Scientific, and Technical Services (Figure 2.5).

**Figure 2.5. Earned credits in urban areas were spread more evenly between various industries than those in rural areas.**

Urban Industry Sector (NAICS Code Number)*	Participants	Investment	Earned Credits
Professional, Scientific, and Technical Services (54)	242	\$9,904,694	\$1,744,725
Health Care and Social Assistance (62)	166	\$14,346,870	\$1,370,609
Construction (23)	150	\$5,451,719	\$1,043,015
Retail Trade (44-45)	115	\$8,162,826	\$816,410
Finance and Insurance (52)	91	\$3,439,216	\$684,870
Other Services (81)	81	\$5,450,677	\$565,094
Management of Companies and Enterprises (55)			
Administrative Support and Waste Management and Remediation Services (56)	71	\$3,849,793	\$459,210
Real Estate and Rental and Leasing (53)	38	\$3,025,877	\$316,380
Manufacturing (31-33)	38	\$4,661,673	\$285,040
Accommodation and Food Services (72)	37	\$4,806,003	\$274,070
Agriculture (11)	39	\$2,529,401	\$253,574
Arts, Entertainment, and Recreation (71)	32	\$11,364,565	\$246,044
Wholesale Trade (42)	32	\$1,508,194	\$207,079
Transportation and Warehousing (48-49)	20	\$908,640	\$142,222
Information (51)	15	\$1,352,226	\$104,274
Educational Services (61)	14	\$725,986	\$70,482
<b>Urban Total</b>	<b>1181</b>	<b>\$81,488,360</b>	<b>\$8,583,098</b>

Source: Audit Office analysis of Department of Revenue data and U.S. Census NAICS webpage information.

\*Sectors 55 and 56 were combined to maintain confidentiality.

The Agriculture sector earned the most credits in rural areas with about \$4.8 million, followed by the Construction sector and Other Services sector (for example dry cleaning and pet care). Investment in the Agriculture sector in rural areas outpaced investment in all other industries combined (Figure 2.6).

**Figure 2.6. The majority of credits earned in rural areas were in the Agriculture sector.**

<b>Rural Industry Sector (NAICS Code Number)*</b>	<b>Participants</b>	<b>Investment</b>	<b>Earned Credits</b>
Agriculture (11)	754	\$54,944,738	\$4,848,902
Construction (23)	116	\$7,323,809	\$835,287
Other Services (81)	92	\$9,165,959	\$639,494
Retail Trade (44-45)	52	\$5,326,002	\$526,721
Professional, Scientific, and Technical Services (54)	68	\$3,335,791	\$438,712
Educational Services (61)	41	\$3,811,541	\$273,780
Health Care and Social Assistance (62)	38	\$3,321,600	\$240,329
Manufacturing (31-33)	30	\$2,126,866	\$210,285
Finance and Insurance (52)	29	\$2,452,437	\$196,618
Transportation and Warehousing (48-49)	28	\$1,933,923	\$191,426
Administrative Support and Waste Management and Remediation Services (56)	33	\$1,889,668	\$169,590
Real Estate and Rental and Leasing (53)	18	\$2,049,797	\$111,500
Wholesale Trade (42)	15	\$542,749	\$86,337
Arts, Entertainment, and Recreation (71)	12	\$634,327	\$71,316
<b>Rural Total</b>	<b>1,326</b>	<b>\$ 98,859,207</b>	<b>\$8,840,297</b>

Source: Audit Office analysis of Department of Revenue data.

\*Sectors 61 and 62 were combined to maintain confidentiality.

### **Urban and Rural Jobs**

As discussed in the Jobs Metric on page 19, we were able to examine employment information for businesses receiving credits from 2020 to 2022. We found the increase in average employment from companies' base year (the year prior to application) to the second year of their project. For companies receiving credits in those three years, we estimated a total increase of 468 jobs. Of those new jobs, 104 were in rural areas and 364 were in urban.

# Metric 5: Distressed Areas Activity

## Results

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For the life of the Microenterprise program, 1,029 businesses in distressed areas earned a little more than \$8.3 million in credits.

## Discussion

Although the Microenterprise program does not currently require or encourage credits to be targeted to areas with high unemployment, the Audit Act requires that we analyze program impacts in distressed areas.<sup>26</sup> The Audit Act defines distressed areas as areas of substantial unemployment as determined by the Department of Labor. They are made up of contiguous census tracts with an unemployment rate of 6.5% or higher over a 12-month average. ASU designations vary every year with changes in unemployment.

Our analysis is slightly broader than what is defined in statute. Due to the large number of participants, we counted firms in counties that had ASUs while they participated in the program. Businesses in distressed areas earned about half (47%) of total microenterprise credits. Out of 2,378 total unique firms, 1,029 (43%) were in distressed areas (Figure 2.7). The highest year for credits in distressed areas was 2015 with 152 firms and \$865,464; the most activity occurred in distressed areas between 2011 and 2016.

**Figure 2.7. Distressed area credits peaked in 2015.**

Year	Companies*	Earned Credits
2007	61	\$468,001
2008	35	\$176,082
2009	42	\$155,497
2010	78	\$370,897
2011	116	\$723,830
2012	144	\$855,131
2013	119	\$651,643
2014	146	\$825,426
2015	152	\$865,464
2016	122	\$790,682
2017	85	\$473,187
2018	57	\$392,207
2019	55	\$366,514
2020	32	\$174,061
2021	64	\$409,838
2022	67	\$562,860

Source: Audit Office analysis of Department of Revenue data.  
 \*This does not add up to 1,029 because some firms received credits in multiple years.

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<sup>26</sup> Through 2017, the Microenterprise Act required applicants to be located in a distressed area. This requirement was eliminated with LB 217 (2017). Our analysis uses a definition of a distressed area that is different from this former requirement, and we applied it to all years.

Douglas and Lancaster, the state’s most populous counties, had ASUs in every year (except 2021). Of the counties meeting our application of distressed, these two counties had the most credits and the highest number of firms (Figure 2.8). More detail about Douglas and Lancaster counties is provided in Section I on pages 9-10.

**Figure 2.8. Of the counties that had ASUs, only nine had 10 or more firms.**

<b>County</b>	<b>Companies</b>	<b>Credit Amount (10 or more firms)</b>
Douglas	603	\$4,856,016
Lancaster	224	\$1,831,549
Sarpy	79	\$612,380
Dodge	17	\$138,922
Otoe	20	\$125,237
Washington	12	\$105,295
Madison	13	\$104,562
Buffalo	16	\$93,190
Cass	10	\$88,430
Adams	5	*
Burt	6	*
Dawson	1	*
Gage	2	*
Hall	8	*
Johnson	1	*
Lincoln	3	*
Nemaha	2	*
Saunders	4	*
Scotts Bluff	1	*
Richardson	1	*
Thurston	1	*

Source: Audit Office analysis of Department of Revenue data.

\*In order to maintain confidentiality, these counties could not be reported.

# Metric 6: High-tech and Renewable Energy Companies

## Results

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For the life of the program, 60 high-tech firms (less than 3% of all Microenterprise program participants) received \$512,830 in Microenterprise credits. The high-tech industry sector that received the most credit was Computer Systems Design and Related Systems.

There were 355 participants that fit the statutory definition of a renewable energy firm (15% of all Microenterprise participants). They received about \$2.4 million in credits. The vast majority of credits were for agricultural production of potential renewable energy inputs.

Within these 415 companies, 27 jobs were created: 24 jobs (5% of the total increase in Microenterprise jobs) in statutorily defined high-tech industries and 3 jobs (<1%) in statutorily defined renewable energy industries.

## Discussion

### High-tech Companies

For tax incentive audits, the definition of high-tech firm is found in statute and uses NAICS code designations.<sup>27</sup> Through 2022, these industry sectors earned \$512,830 in credits (Figure 2.9).

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<sup>27</sup> Neb. Rev. Stat. § 50-1209. These are businesses in industries that have the highest concentration of STEM employees. Nathan Goldschlag and Javier Miranda, “Business dynamics statistics of High Tech industries,” *Journal of Economics and Management Strategy*, 2020. This paper was the basis for the update to the high-tech definition brought by the Performance Audit Committee on the Audit Office’s behalf in 2023. It was also used as the basis for the Census Bureau’s Business Dynamics Statistics high-tech industries definition.

**Figure 2.9. The highest amount of both the number of high-tech companies and earned credits was in 2016.**

Year*	Companies**	Earned Credits
2007	7	\$47,521
2008	7	\$18,797
2009-2010	5	\$26,332
2011	4	\$29,404
2012	9	\$60,571
2013	4	\$28,942
2014	3	\$27,329
2015	6	\$32,085
2016	12	\$78,397
2017	8	\$47,597
2018	3	\$15,052
2019-2020	6	\$39,614
2021-2022	7	\$61,189

Source: Audit Office analysis of Department of Revenue data.

\*Some years were combined to maintain confidentiality.

\*\*This does not add up to 60 because some firms received credits in multiple years.

Computer Systems Design received the most credits with 29 participating companies receiving \$235,679 (Figure 2.10). Architectural and Engineering Services followed with 20 firms receiving \$179,039.

**Figure 2.10. Two industry sectors had more than three quarters of high-tech program participation.**

Industry Subsector (4-Digit NAICS Code Number)*	Companies	Earned Credits
Computer Systems Design and Related Services (5415)	29	\$235,679
Architectural, Engineering, and Related Services (5413)	20	\$179,039
Software Publishers (5112)		
Computing Infrastructure Providers, Data Processing, Web Hosting, and Related Services (5182)	6	\$54,718
Scientific Research and Development Services (5417)		
Other Information Services (5191)	5	\$43,394

Source: Audit Office analysis of Department of Revenue data and U.S. Census NAICS webpage information.

\*Subsectors 5112, 5182, and 5417 were combined to maintain confidentiality.

## Renewable Energy Companies

The definition of renewable energy firm includes industry sectors that not only produce energy from renewable sources, but also those that support renewable energy production.<sup>28</sup> It includes businesses such as farms that produce biomass inputs, wind turbine and turbine generator manufacturing, and environmental consulting services. Between 2007 and 2022, about \$2.4 million went to renewable energy companies (Figure

<sup>28</sup> Neb. Rev. Stat. § 50-1209. Working papers from the development of the Bureau of Labor Statistics Green Goods and Services survey were the basis for the update to the renewable energy definition brought by the Performance Audit Committee on the Audit Office's behalf in 2023.

2.11). Because most credits went to potential renewable energy inputs from the Agriculture sector, it follows similar trends of agricultural participation in the program. Along with other metrics, it has fallen dramatically since the early years of the program due to changes in the law

It should be noted that not all firms in these industries are producing outputs related to renewable energy production at all times. This definition includes corn and soy farming because both have the *potential* to be used for renewable energy production. Because of this, the results found in this section should be considered as the *maximum potential* renewable energy impact.

**Figure 2.11. Credits for renewable energy related activities have greatly declined from the first years of the program.**

Year*	Firms**	Earned Credits
2007	68	\$500,634
2008	102	\$723,778
2009	145	\$573,534
2010	32	\$121,216
2011	18	\$131,933
2012	13	\$90,550
2013	7	\$49,732
2014	6	\$42,911
2015	3	\$20,839
2016	4	\$23,488
2017	3	\$22,397
2018	0	\$0
2019-2022	6	\$64,945

Source: Audit Office analysis of Department of Revenue data.

\*Some years were combined to maintain confidentiality.

\*\*These numbers will not add up to 355 because some firms received credits in multiple years.

All of the credits to renewable energy sectors from the Microenterprise program went to activity that could support renewable energy production (Figure 2.12). There were no credits earned by companies that actively generate renewable energy.

**Figure 2.12. The vast majority of renewable energy credits went to agricultural activities that can support renewable energy production.**

Industry Sector (NAICS Code Number)*	Companies	Earned Credits
Agriculture, Forestry, Fishing and Hunting (11)	351	\$2,335,607
Construction (23) Transportation and Warehousing (48-49)	4	\$30,350

Source: Audit Office analysis of Department of Revenue data.

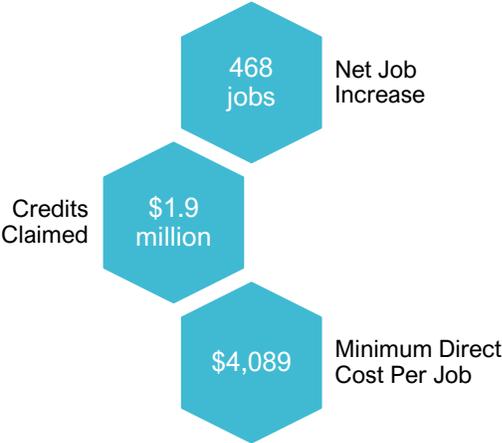
\*Sectors 23 and 48-49 were combined to maintain confidentiality.

# Metric 7: Cost Per Job

## Results

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For companies that received credit from 2020 to 2022, we estimate that each additional job created during their two-year project timeframe cost the state at least \$4,089 in forgone revenue.



## Discussion

Statute directs the Audit Office to analyze incentive programs using a cost per full-time worker analysis. Because of the data available for this audit, we are providing a slightly different analysis—a cost per average total employee increase.

### The “But-for” Question

A question common to all tax incentive programs is: did the tax incentive program cause the taxpayer to undertake a project or would it have happened even without the credit? This is usually called the “but-for” question. In other words, would the project or activity not have occurred but-for the incentive?

It is widely accepted that tax incentives cannot be assumed to have caused all the economic activity associated with these programs.<sup>29</sup> So, the question is not “would some of the activity have happened anyway?” but “how *much* of the activity would have

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<sup>29</sup> Some examples include: The Nebraska Department of Revenue regarding economic modeling for the Nebraska Advantage Act: “It is important to note that some of these new jobs would be created regardless of the Act’s tax credits due to growth in the company. Thus, the exact number of jobs that would be created without the existence of the Act is unknown.” Nebraska Department of Revenue, *Nebraska Tax Incentives Annual Report 2023*; economist Timothy J. Bartik, “‘But For’ Percentages for Economic Development Incentives: What Percentage Estimates are Plausible Based on the Research Literature?,” *W.E. Upjohn Institute for Employment Research*, July 1, 2018; and the Center for Regional Economic Competitiveness and Smart Incentives, “Estimating the Influence of Incentives on Investment Decisions: A New Approach to the But-For Question,” November 2020.

happened anyway?” In previous tax incentive audits, the Audit Office has used 12-25% to provide a range of estimates for how much of the activity associated with a tax incentive might have been caused by the program.<sup>30</sup> For the Microenterprise program, however, we chose not to calculate such estimates. This is because those ranges were developed using research on larger tax incentive programs.

It is very likely that some of the increases in employment and investment by projects we reviewed would have occurred without the incentive, which is essential to remember when discussing this, or any other, tax incentive program. To the extent that incentivized economic activity would have occurred without the program, any efficiency calculation, including cost per job, would necessarily be affected.

Using data from the Department of Labor’s Quarterly Census of Employment and Wages, we estimated that entities that received credit from 2020 to 2022 saw a net increase of 468 jobs.<sup>31</sup> The total credits claimed by all participants in that same time was \$1,913,478. This gives us an estimated average direct cost per job of \$4,089 for every additional employee, part-time and full-time, in those years. Knowing that many of the jobs added by those companies would have been created regardless of the program, this number would best be understood as a **minimum direct cost per job** estimate. It cannot be assumed that these jobs were permanent additions to the economy because employment at individual businesses naturally fluctuates over time.

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<sup>30</sup> This range comes from economist Timothy Bartik’s research in this area. Bartik, “‘But For’ Percentages for Economic Development Incentives: What Percentage Estimates are Plausible Based on the Research Literature?,” p. 2; and Bartik, “Making Sense of Incentives: Taming Business Incentives to Promote Prosperity,” 2019, p. 46.

<sup>31</sup> This number was calculated by finding the difference between companies’ average employment in their base year and the average employment for their second year of the project.

# Metric 8: Economic Modeling

## Results

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Based on economic modeling using REMI (Regional Economic Models, Inc.) Tax-PI software, without the incentive there would have been a net additional 144 job-years in Nebraska between 2007 and 2022. Additionally, Tax-PI estimated that there would have been a net increase in total state and local revenue of around \$30,000. These results suggest that the program was effectively neutral in terms of the statewide employment and revenue effects.

## Discussion

For each year between 2007 and 2022, we used Tax-PI to estimate the economic activity that may have occurred if the Microenterprise Act had not been passed and instead the foregone revenue (due to the program) had been spent through the state budget. In other words, the model compared economic activity from a simulated state economy that did *not* include the program to the *actual* historic economy. The resulting outputs are the differences between the two.

In general terms, economic modeling software allows a user to increase or decrease the amounts of specific economic variables and estimate the effects those changes will have on the economy. The inputs used for our simulation were based on credits earned by participants. To find the estimates in this section, the Audit Office worked with REMI support staff to select the correct parameters and inputs to use for the most accurate possible simulation.<sup>32</sup>

## Model Outputs

The simulation suggested that our alternative scenario, the state's economy without the incentive, would have resulted in 144 more job-years than actually occurred from 2007 to 2022.<sup>33</sup> A job-year means one job that exists in the state's economy for one year. For revenue generation, the simulation suggested that our alternative scenario would have resulted in about \$30,000 in additional state and local tax revenue for the same time period. This includes sales tax, individual income tax, and corporate income tax among others.<sup>34</sup>

In the Jobs Metric, we estimate that 468 jobs were created by participating companies in between 2020 and 2022. These modeling results are estimating job changes in a more complex way, and for the life of the program. Here we are comparing the difference between what actually happened with the incentive and what may have happened if the

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<sup>32</sup> See Appendix E for details on model updates and inputs used for our simulation.

<sup>33</sup> This includes the model's total direct, secondary, and induced employment changes. See Appendix E for more details.

<sup>34</sup> The full list of taxes simulated by the model are general sales, selective sales, motor fuel, alcohol, tobacco, utilities, individual income, corporate income, motor vehicle license, and other taxes.

credits would have been used in the budget instead. Both options would have had positive employment effects. This simulation suggests that spending the incentive money through the budget rather than on this program may have had a higher positive employment effect.

In relation to the statewide economy, these are potentially minor effects. In December of 2022, there were 1.05 million jobs reported by companies in Nebraska.<sup>35</sup> State budget appropriations was over \$5 billion for Fiscal Year 2022-2023.<sup>36</sup> The employment and revenue effects estimated here—144 job-years and \$30,000—would not be enough to have a substantial impact on the economy or the state budget.

This does not necessarily mean that spending through the budget would have been a better policy decision. The Microenterprise program directed dollars to microbusinesses and the potential trade-off may be an acceptable result to those who want to assist small businesses.

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<sup>35</sup> Nebraska Department of Labor, *Nebraska Workforce Trends*, February 2023, p. 2.

<sup>36</sup> Nebraska Legislature, Legislative Fiscal Office, *State of Nebraska FY2023-24/FY2024-25 Biennial Budget Report*, August 2023, p. 47.

# Metric 9: Cost to Administer

## Results

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From 2018 through 2022, the Department of Revenue spent \$8 million to administer all tax incentive programs.

## Discussion

The Nebraska Advantage Microenterprise Tax Credit Act is one of several tax incentive programs administered by the Department of Revenue (Revenue). Generally, the Department does not track administrative expenditures by specific incentive because all programs are administered together. Revenue spent an average of \$1.6 million each year for the administration of all tax incentive programs from 2018 through 2022, for a total of \$8 million (Figure 2.13).

In previous years, the Department of Economic Development (DED) had incurred costs related to the Microenterprise program because it was included as a part of a package of incentives that were promoted together. That is no longer the case. Since 2018, DED has turned their attention and resources to programs in which they have some administrative role. Their current focus is on the state’s foremost incentive program, ImagiNE, which was enacted in 2021.

The total cost for administering all tax incentive programs from 2004 to 2017 was \$24.9 million.

**Figure 2.13. Estimated Cost to Administer and Promote All Tax Incentive Programs, 2004-2022**

Function	Department	2004-2017	2018-2022
Incentives Administration	Revenue	\$13.9 M	\$8 M
Incentives Promotion	Economic Development	\$11 M	N/A

Source: Audit Office compilation of data provided from the Departments of Revenue and Economic Development.

# Metric 10: Fiscal Protections

## Results

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

## Discussion

A 2015 report by the Pew Charitable Trusts noted the difficulty placed on state policymakers when an unexpected decrease in state revenue occurs and stated that tax incentive programs can contribute to such situations if fiscal controls are not in place.<sup>37</sup> The report makes nine recommendations for ensuring tax incentive programs do not cause fiscal problems. The Microenterprise Act meets six of these recommendations.

### Program Allocation Cap

The Act contains an official annual cap of \$2 million, but it also contains a carryover provision that is not completely clear:

The adjusted limit in a given year is two million dollars plus tentative tax credits that were not granted by the end of the preceding year.<sup>38</sup>

The issue is how to interpret what “not granted by the preceding year” means. If there are two years in a row where not all credits were allocated, are the credits left over from both years available for the future? Or are only credits in immediately preceding year available?

From the program’s start in 2006 until 2013, the \$2 million cap was reached every year so there was no carryover. Beginning in 2014, the cap was not reached and Revenue started rolling over each year’s remaining credits and pooling them together. When the accumulation surpassed \$2 million in 2017, Revenue consulted their counsel as to whether to continue compiling all previous years’ credits. They were told that going forward, the rollover amount could be up to \$2 million. Any unallocated credits in excess of \$2 million should no longer be carried over. So between 2017 and 2021, including the \$2 million annual allocation cap as well as the \$2 million carryover, a \$4 million maximum was available for allocation in each year.

In 2021, authorized credits exceeded the \$2 million allocation cap for the first time. An additional \$992,343 was allocated out of rollover funds, so Revenue reduced the

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<sup>37</sup> The Pew Charitable Trusts, *Reducing Budget Risks: Using Data and Design to Make State Tax Incentives More Predictable*, December 2015.

<sup>38</sup> Neb. Rev. Stat. § 77-5905(2).

maximum available for the next year to \$3,007,657. Of that amount, they allocated \$2,425,254 in 2022, which left \$2,582,403 available for 2023. An allocation table, used by Revenue to track allocation and carry forward amounts for the years 2014 to 2022, can be found in Appendix F.

This interpretation could be seen as exceeding the Legislature’s expectations, as it can create situations where allocations exceed the cap of \$2 million plus the *immediate* previous year’s unauthorized credits. It can also cause the program to exceed \$2 million in allocations multiple years in a row.

The Legislature could introduce new legislation to clear up the language—options include eliminating rollover funds, limiting the amount that can be accumulated, and/or limiting the amount that the cap can be exceeded in a given year.

### **Fiscal Protection Recommendations**

The Act meets several Pew recommendations, including timely sharing of information across relevant agencies, and requiring companies to provide advance notice of program participation (Figure 2.14).

However, the Act provides participants a fully refundable benefit—meaning they receive payment for any amount over their actual tax liability. Other recommendations that are not met are paying for the credit through budget appropriations and forecasting the cost.

**Figure 2.14. The Microenterprise program meets six of nine Pew Center fiscal protection measures.**

<b>Pew Report Recommendations</b>	<b>Microenterprise</b>	<b>Audit Office Remarks</b>
<b>Gather and share high-quality data on the costs of incentives by:</b>		
Regularly forecast the cost	<b>No</b>	Costs are not forecasted.
Monitor costs and commitments of large and high-risk programs	<b>Yes</b>	The program is relatively small, capped, and sufficiently tracked by Revenue who releases annual reports on it.
Share timely information on incentives across relevant agencies	<b>Yes</b>	Adequate language in statute exists that gives the Audit Office access to information from the Depts. of Labor and Revenue.
<b>Design incentives in ways that reduce fiscal risk:</b>		
Capping how much programs can cost each year	<b>Yes</b>	The Act is capped at \$2 million per year plus potential tax credits that were not authorized the preceding year, up to an additional \$2 million in rollover funds.
Controlling the timing of incentive redemptions	<b>Yes</b>	Entities have two years to earn and use credits before they expire.
Requiring lawmakers to pay for incentives through budget appropriations	<b>No</b>	Funding for this program does not go through the appropriations process.
Restricting the ability of companies to redeem more in credits than they owe in taxes	<b>No</b>	Microenterprise credits are fully refundable.
Linking incentives to company performance	<b>Yes</b>	Entities must show additional investment and/or wages to Revenue before credits are earned.
Requiring businesses to provide advance notice of program participation	<b>Yes</b>	Entities must apply and be approved by Revenue in order to participate in the program

Source: Audit Office analysis of information from The Pew Charitable Trusts, *Reducing Budget Risks: Using Data and Design to Make State Tax Incentives More Predictable*, December 2015.

# Metric 11: Transparency

## Results

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The Microenterprise Act at least partially meets goals for five of the eight overall 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.

## Discussion

Transparency in tax incentives has been a continuing concern for lawmakers and stakeholders. This is a new metric that attempts to address these concerns. Revenue publicly reports what is required of it by law every year. The Legislative Audit Office (LAO) reports additional information according to statutory guidance every five years. However, statutory reporting requirements may not sufficiently cover information desired by legislators or the public.

The Department of Revenue issues an annual report containing the amount of projected spending on employment and investment anticipated by taxpayers receiving tentative tax credits and the tentative tax credits granted, the actual amount of spending on employment and investment made by taxpayers that were granted tentative tax credits in the previous calendar year, and the tax credits used and expired.

Starting in 2021, the report is required to provide information on project-specific total credits used every two years for approved applications, to disclose the identity of the taxpayer, the location where the taxpayer is earning credits, and the new investment or employment spending that was actually produced by the taxpayer to earn credits. Every even-numbered year the report is presented at a joint Revenue and Appropriations committee hearing.

We used transparency scoring criteria from a 2022 report by Good Jobs First (GJF) to compare current program reporting requirements with their recommended standards.<sup>39</sup> Public reporting on the Microenterprise program was analyzed for information reported and when it is available. For each recommended standard, we made determinations based on what is reported annually by the Department of Revenue. For informational purposes, we also show additional information related to each standard that is provided by LAO's performance audits, which occur every five years.

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<sup>39</sup> Good Jobs First, *Financial Exposure: Rating the States on Economic Development Transparency*, April 2022.

## Project Information

The Good Jobs First report suggests that agencies should disclose:

- the street address or GPS coordinates
- either the project duration or the month and year of the start or end of contract, agreement, or project
- the type or nature of the project, which can be as simple as “construction” or “relocation,” or a more elaborate description.

**Partially meets recommendation:** For projects starting August 28, 2021 or later, individual locations are publicly reported by Revenue after program participants complete their projects if they earn credit.<sup>40</sup>

GJF transparency recommendation	Prior to Approval?	Revenue Reporting After Approval?	LAO Reports After Approval?
<b>Project street address or GPS coordinates</b>	No	Location by city	Aggregated with additional analysis
<b>Project timing</b>	No	Application year	Aggregated with additional analysis
<b>Project type</b>	No	No	Aggregated with additional analysis

## Advance Notice and Public Participation

The Good Jobs First report suggests that agencies should provide:

- full application documents
- cost-benefit analyses, at least 15 days ahead of public deliberations
- public meeting schedules with detailed agendas on proposed deals
- draft agreements ahead of final approval

**Does not meet recommendations:** There is no public disclosure of application information in advance of application or credit approval. No cost-benefit analyses are performed. No tax incentive program in Nebraska allows for public participation in tax incentive applications prior to approval by Revenue. A joint Revenue/Appropriations Committee legislative committee meeting open to the public is held every even year to discuss all tax incentive programs, some in detail and some in aggregate to maintain confidentiality, but all information discussed is from after the approval process.<sup>41</sup>

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<sup>40</sup> Neb. Rev. Stat. § 77-5907(2).

<sup>41</sup> Neb. Rev. Stat. § 77-5907.

GJF Transparency Recommendation	Prior to Approval?	Revenue Reporting After Approval?	LAO Reports After Approval?
Full application documents	No	No	No
Cost-benefit analyses	No	No	Aggregated with additional analysis
Public meetings	No	-	-
Draft agreements	No	No	No

### Company/Awardee Information

The Good Jobs First report suggests that agencies should provide:

- federal employer identification numbers or FEIN
- North American Industry Classification System (NAICS) codes
- the names of parent companies, so that the public knows who is ultimately receiving the subsidy.

**Does not meet recommendations:** Neither company names nor Federal Employer Identification Numbers are reported. Names of individuals receiving credit are reported, but not the names of their businesses. Individual NAICS codes are not publicly reported except when the Legislative Audit Office (LAO) analyzes them in our reports.

GJF Transparency Recommendation	Prior to Approval?	Revenue Reporting After Approval?	LAO Reports After Approval?
Federal Employment Identification Number	No	No	No
NAICS codes	No	No	Aggregated with additional analysis
Parent company names	No	Individual names, not company names	No

### Subsidy Information

The Good Jobs First report suggests that agencies should provide:

- the amount of subsidy approved or awarded
- the amount of subsidy disbursed or claimed
- project status - states need to post both the status (active, expired, renewed, canceled, etc.) as well as enforcement actions like clawbacks for projects that fail to meet their milestones.

**Partially meets recommendations:** The amounts authorized and claimed are provided to the general public in aggregated form by year in Revenue’s annual report. There is no recapturing (“clawbacks”) as commonly conceived of in incentive programs. However, corrections and adjustments can and have been made. Additionally, taxpayers have a three-year statute of limitations window to make changes, and reporting totals can

be adjusted. Beginning with their 2023 tax incentives report, Revenue reports individual credit amounts in two-year totals.

GJF Transparency Recommendation	Prior to Approval?	Revenue Reporting After Approval?	LAO Reports After Approval?
Amount approved or awarded	N/A	Aggregated by application year	Aggregated with additional analysis
Amount disbursed or claimed	N/A	Individual participant's credit use by two-year aggregation	Aggregated with additional analysis
Project status	N/A	No	No

### Jobs Reporting

The Good Jobs First report suggests that agencies should provide:

- projected number of new jobs on which the amount of award is based or the actual number of new jobs by which project performance is determined.

**Does not meet recommendations:** No job totals or FTEs are publicly reported by Revenue. The program is not designed around job creation, so jobs numbers are not reported. Credits are earned through increases in investment and total compensation. The only verification of employment totals that is required is during the application process to investigate whether the company has five employees or less in order to qualify.

In this report, LAO used Department of Labor employment and wage information for participating companies.

GJF Transparency Recommendation	Prior to Approval?	Revenue Reporting After Approval?	LAO Reports After Approval?
Projected jobs	No	No	No
Actual jobs	N/A	No	Averages aggregated with additional analysis

### Wages/Payroll Reporting

The Good Jobs First report suggests that agencies should clearly state:

- the projected/expected/promised pay
- the actual pay of new jobs

**Partially meets recommendations:** The projected and actual pay of new jobs is not available to the general public. Revenue reports the total amount of projected increase and actual increased total wages by application year and for individuals. However, the value of this reporting is limited. Those numbers are only total compensation increases over the base year. Job numbers and total compensation would be needed to find

something like an average wage. In this report, LAO used Department of Labor employment and wage information for participating companies.

GJF Transparency Recommendation	Prior to Approval?	Revenue Reporting After Approval?	LAO Reports After Approval?
Projected wages	No	Aggregated compensation totals by application year	No
Actual wages	N/A	Aggregated compensation totals by application year, Individual participant's increased employment compensation by two-year aggregation	Averages aggregated with additional analysis

### Investment Reporting

The Good Jobs First report suggests that agencies should disclose:

- promised in-state capital investment, expenditure, or cost
- actual in-state capital investment, expenditure, or cost

**Partially meets recommendations:** As with increased wages, increased investment started being reported by individual credit earner in 2023 in Revenue's annual tax incentive report, which is available to the general public.

GJF Transparency Recommendation	Prior to Approval?	Revenue Reporting After Approval?	LAO Reports After Approval?
Projected investment	No	Aggregated by application year	No
Actual investment	N/A	Individual participant's increased investment by two-year aggregation	Aggregated with additional analysis

### Data Accessibility

The Good Jobs First report suggests that disclosures should be:

- easy to find and not hidden in some obscure corner
  - how many clicks away is the data? Two clicks away or less are ideal.
- easy to understand and not hidden behind jargon or nebulous phrases
- downloadable and not locked behind a web interface
- at least five years of data must be provided
  - data must be in a structured format without the need for additional scraping

**Meets recommendations:** Revenue’s information on the Act, including the application, the tax credit claim form and the authorization table, is two clicks away on Revenue’s website.<sup>42</sup> Their annual tax incentive report is three clicks away.<sup>43</sup> LAO’s last and future microenterprise audits are four clicks away on the Legislature’s website.<sup>44</sup> These reports are written in a fairly easy to understand manner. All of the reports are in a PDF format accessible to the general public and are not locked or behind a paywall or login requirements. Both Revenue and LAO reports look back to the beginning of the program up to the most recently available data.

<b>GJF Transparency Recommendation</b>	<b>Department of Revenue</b>	<b>Performance Audits</b>
<b>Easy to find</b>	Three clicks from Department of Revenue site.	Four clicks from Nebraska Legislature main site.
<b>Easy to understand</b>	Yes	Yes
<b>Downloadable</b>	Yes	Yes
<b>Five years of data</b>	Yes	Yes

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<sup>42</sup> <https://revenue.nebraska.gov/>, then click on “Tax Incentives,” then on “Nebraska Advantage Microenterprise Act.”

<sup>43</sup> <https://revenue.nebraska.gov/>, then click on “Tax Incentives,” then on “Nebraska Tax Incentives Annual Reports,” and finally on the report.

<sup>44</sup> <https://nebraskalegislature.gov/>, then toggle “Reports” menu to “Performance Audit,” then click on “Performance Audit Reports,” to the 2018 report and this report.



## APPENDIX A: Approved Applications

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Figure A

Year	Approved Applications
2006	228
2007	227
2008	464
2009	216
2010	210
2011	196
2012	209
2013	192
2014	144
2015	119
2016	97
2017	80
2018	79
2019	62
2020	76
2021	147
2022	120
<b>Total</b>	<b>2,866</b>

Source: Audit Office compilation of Department of Revenue data.

## APPENDIX B: County Per Capita Benefits

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Figure B

County	Per Capita Benefit (All Years)
Logan	\$302.91
Greeley	\$186.79
Valley	\$145.99
Garfield	\$89.86
Boone	\$64.40
Cuming	\$47.60
Pierce	\$47.19
Sherman	\$37.61
Antelope	\$37.52
Polk	\$36.99
Chase	\$31.53
Custer	\$31.15
Hamilton	\$28.96
Otoe	\$27.08
Colfax	\$23.01
Platte	\$22.93
Burt	\$22.82
Fillmore	\$19.77
Nance	\$19.73
Butler	\$19.37
Johnson	\$16.54
Holt	\$16.36
York	\$13.82
Dodge	\$13.65
Cedar	\$13.38
Merrick	\$13.38
Stanton	\$12.81
Knox	\$10.90
Washington	\$9.69
Seward	\$9.09
Douglas	\$8.31
Madison	\$7.98
Saunders	\$7.84
Lincoln	\$7.39
Cass	\$7.17
Saline	\$6.15
Lancaster	\$5.65
Sarpy	\$4.65
Adams	\$4.55
Buffalo	\$3.47
Hall	\$2.32

Source: Audit Office analysis of Department of Revenue data.

## APPENDIX C: Industry Approved Applications

From 2009 to 2013, Microenterprise approved applications hovered around 200 per year. From 2014 to 2020, the number of approved applications declined yearly until 2021 when they increased to 147 and then fell to 120 in 2022.

Figure C

Industry Sector	2006	2007	2008	2009	2010	2011	2012	2013	2014
11	118	181	324	29	43	22	17	15	12
23	9	9	28	33	27	32	32	23	19
31-33	6	4	7	9	4	7	7	8	7
42	4		8	5	4	4	9	5	4
44-45	9	6	16	29	21	19	22	22	18
48-49	4	3	8	9	3	2	4	2	4
51	1	1	2	2	1	3	1	2	1
52	12	3	10	10	10	10	23	10	6
53	4	1	2	8	10	10	10	15	2
54	18	11	19	33	19	32	33	33	25
55									
56	6	1	6	13	16	17	11	8	4
61	2			1	1	1	1	1	2
62	20	3	11	16	23	12	18	18	17
71	2		3	1	1	6	3	5	7
72	4	2	3	5	8	7	5	4	10
81	9	2	17	13	19	12	13	21	8

Industry Sector	2015	2016	2017	2018	2019	2020	2021	2022	Total All Years
11	5	7	4	4	3	6	14	10	814
23	18	14	7	8	8	13	19	18	317
31-33	3	3	5	2	3	2	1	3	81
42	3	1	2	1	1	0	1	2	54
44-45	17	11	8	8	5	9	26	17	261
48-49	3	2				3	5	1	53
51	1		1	2	2	3	26	2	51
52	8	9	3	2	2	3	2	3	126
53	3	3	6		1	3	4	1	83
54	20	12	11	19	11	11	10	19	336
55					1				1
56	3	5	4	5	4	6	3	4	116
61	2	1			3		1		16
62	16	14	13	9	2	6	10	15	223
71	1	4	2	4	2	1	3	2	47
72	4	5	4	5	3	4	4	8	85
81	12	6	10	10	11	6	18	15	202

Source: Audit Office compilation of Department of Revenue data.

## APPENDIX D: Urban and Rural Activity

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Figure D

	Rural	Rural Percentage	Urban	Urban Percentage	Total
2007	\$900,463	61%	\$574,372	39%	\$1,474,835
2008	\$1,613,126	84%	\$315,817	16%	\$1,928,943
2009	\$1,405,178	84%	\$259,570	16%	\$1,664,748
2010	\$602,503	57%	\$463,945	44%	\$1,066,448
2011	\$822,823	53%	\$733,670	47%	\$1,556,493
2012	\$583,269	44%	\$748,346	56%	\$1,331,615
2013	\$465,673	43%	\$610,982	57%	\$1,076,655
2014	\$533,499	41%	\$760,237	59%	\$1,293,736
2015	\$350,699	30%	\$812,130	70%	\$1,162,829
2016	\$314,023	29%	\$786,973	72%	\$1,100,996
2017	\$259,370	34%	\$509,731	66%	\$769,101
2018	\$185,049	32%	\$391,133	68%	\$576,182
2019	\$119,108	24%	\$388,228	77%	\$507,336
2020	\$62,244	25%	\$185,165	75%	\$247,409
2021	\$143,692	25%	\$443,225	76%	\$586,917
2022	\$479,578	44%	\$599,574	56%	\$1,079,152
<b>Total</b>	<b>\$8,840,297</b>	<b>51%</b>	<b>\$8,583,098</b>	<b>49%</b>	<b>\$17,423,395</b>

Source: Audit Office analysis of Department of Revenue data.

## **APPENDIX E: Economic Modeling**

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With the assistance of REMI staff, we set up the Tax-PI economic modeling software to simulate what would have happened in the past if the incentive didn't exist and the program's foregone revenue was instead used in the state budget. Our version of Tax-PI is a single region, 70 sector model. This means that the entire state is treated as one economic unit, divided into 70 industry sectors based on various NAICS codes at the 2, 3, and 4-digit level.

### **Model Updates**

REMI models are designed to simulate what may happen in the future, but we are attempting to simulate an alternative history. This required making some customized adjustments to some of the background data used by the model so we can use the model's predictive capabilities to assess alternative economic histories. We made the following updates for our simulation:

#### **Population Update:**

This adjustment brought demographic information from the past and placed it in the model's future.

#### **Employment Update:**

This adjustment brought employment information from the past and placed it into the model's future.

#### **Budget Adjustment (state specific taxation):**

This adjustment tweaks the model's assumptions of what is and isn't taxed to make it more like the state of Nebraska's tax structure.

Once the model is set up for the economy we want to examine, we then decide which policy variables to change. This is the essence of economic modeling. We decide which economic inputs to adjust and by how much. Then we run the simulation to see what the model believes would happen to the economy based on those inputs.

### **Credit Use**

Our first inputs attempt to simulate what would have happened if participants in the program did not receive credits. We found the amount of credits used in Tax-PI's 70 sector aggregation in every year of the program through 2022. For all economic activity except farming, we input the credits as an increase in the Production Cost policy variable. The theory being that most companies treat taxes as one of the various costs of doing business. A loss of tax credits would then be seen as an increase in business costs. Tax-PI does not have an option to simulate a change in the cost of production for farm activity, so for those sectors we chose to input credits from farm operations as a decrease in the Proprietor Income policy variable.

## Appropriated Expenditures

Because we are simulating a shift of money from program participants back to the state budget, the second set of inputs simulate an increase in spending based on state budget appropriations. The total increase equals the amount of credits used. With the assistance of REMI staff, we found a private sector analogue for state spending items. We then found the percentage of state spending dedicated to those items, and prorated credit use accordingly. For example, in the budget passed by the Legislature in 2021, 21.1% of the budget was dedicated through TEEOSA to K-12 school funding. For modeling purposes, we assumed that 21.1% of the credits used through the program in 2021 were instead used as spending in the Elementary and Secondary Schools policy variable.

### Detailed Output Results as Provided by Tax-PI

#### Economic Summary

Comparison Type	Forecast	Comparison Forecast
Differences	Regional Simulation with both variables	Regional Control 12_21

Category	Units	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Employment	Thousands (Jobs)	0.018	0.024	0.021	0.011	0.015	0.012	0.008	0.009	0.006	0.005	0.002	0.000	0.000	-0.001	0.002	0.010
Private Non-Farm Employment	Thousands (Jobs)	0.017	0.021	0.019	0.010	0.014	0.011	0.007	0.008	0.005	0.005	0.002	0.000	0.000	-0.001	0.002	0.009
Residence Adjusted Employment	Thousands	0.018	0.023	0.020	0.011	0.015	0.012	0.008	0.009	0.006	0.005	0.002	0.000	0.000	-0.001	0.002	0.010
Population	Thousands	0.004	0.010	0.013	0.012	0.012	0.012	0.011	0.010	0.009	0.007	0.006	0.004	0.003	0.002	0.002	0.004
Labor Force	Thousands	0.004	0.008	0.011	0.009	0.009	0.009	0.007	0.006	0.005	0.004	0.003	0.002	0.001	0.000	0.001	0.003
Gross Domestic Product	Billions of Fixed (2012) Dollars	0.001	0.001	0.001	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Output	Billions of Fixed (2012) Dollars	0.001	0.001	0.001	0.000	0.000	0.000	0.000	0.000	0.000	0.000	-0.001	-0.001	-0.001	-0.001	0.000	0.001
Value-Added	Billions of Fixed (2012) Dollars	0.001	0.001	0.001	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Personal Income	Billions of Current Dollars	0.000	0.000	0.000	0.000	0.001	0.001	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.001
Disposable Personal Income	Billions of Current Dollars	0.000	0.000	0.000	0.000	0.000	0.001	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.001
Real Disposable Personal Income	Billions of Fixed (2012) Dollars	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Real Disposable Personal Income per Capita	Thousands of Fixed (2012) Dollars	0.000	-0.001	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
PCE-Price Index	2012=100 (Nation)	0.001	0.000	0.000	0.001	0.001	0.001	0.001	0.001	0.001	0.001	0.001	0.000	0.000	0.000	0.000	0.001

#### Revenues

Category	Comparison Type	Forecast	Comparison Forecast
Revenues	Differences	Regional Simulation with both variables	Regional Control 12_21

Revenue	Units	FY2009	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022
General sales	Thousands of Current Dollars	-9.559	-23.827	-19.509	-2.909	-4.543	-0.277	-1.255	-6.441	-7.316	-6.357	-8.170	-8.734	-6.110	-6.858	-3.321	13.091
Selective sales	Thousands of Current Dollars	-0.004	-2.154	-0.571	2.359	3.066	3.291	2.406	2.632	2.001	1.794	0.667	0.073	-0.017	-0.495	0.714	4.532
Motor fuel	Thousands of Current Dollars	-0.175	-0.435	0.361	1.175	1.973	2.063	2.282	1.451	1.455	1.633	0.861	0.469	0.369	0.066	0.403	2.040
Alcoholic beverage	Thousands of Current Dollars	-0.022	-0.035	0.032	0.033	0.092	0.115	0.035	-0.037	-0.003	0.061	0.033	-0.188	-0.002	-0.015	-0.003	-0.046
Tobacco products	Thousands of Current Dollars	-0.145	-0.203	0.061	0.090	0.209	0.276	0.093	-0.092	-0.016	0.114	0.057	-0.318	0.006	-0.007	0.012	-0.021
Public utilities	Thousands of Current Dollars	-0.087	-0.275	-0.071	0.124	0.139	0.156	0.132	0.143	0.100	0.104	0.066	0.037	0.045	0.024	0.055	0.254
Other selective sales	Thousands of Current Dollars	-0.001	-0.321	-0.085	0.351	0.457	0.490	0.358	0.392	0.298	0.267	0.099	0.011	-0.003	-0.074	0.106	0.675
Individual income	Thousands of Current Dollars	-0.018	-10.246	-2.717	11.221	14.584	15.653	11.444	12.518	9.517	8.533	3.173	0.346	-0.083	-2.353	3.396	21.553
Corporate income	Thousands of Current Dollars	0.202	0.205	-0.033	-0.924	-1.329	-1.863	-2.403	-2.875	-3.590	-3.620	-3.957	-3.820	-3.357	-2.914	-2.146	1.040
Motor vehicle license	Thousands of Current Dollars	0.744	1.613	2.115	2.061	2.251	2.267	2.137	2.115	1.953	1.802	1.527	1.211	0.971	0.714	0.738	1.220
Other taxes	Thousands of Current Dollars	0.531	0.671	0.583	0.221	0.308	0.154	-0.050	-0.049	-0.227	-0.262	-0.428	-0.475	-0.416	-0.432	-0.182	0.530

## **APPENDIX F: Department of Revenue Allocation Table**

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**Figure F**

<b>Year</b>	<b>Amount Allocated</b>	<b>Amount Available</b>	<b>Amount Reserved</b>	<b>Amount Unused</b>	<b>Carried Forward</b>
2014	2,000,000	2,000,000	1,563,529	436,471	436,471
2015	2,000,000	2,436,471	1,289,038	1,147,433	1,147,433
2016	2,000,000	3,147,433	1,018,832	2,128,601	2,000,000
2017	2,000,000	4,000,000	842,078	3,157,922	2,000,000
2018	2,000,000	4,000,000	793,449	3,206,551	2,000,000
2019	2,000,000	4,000,000	687,346	3,312,654	2,000,000
2020	2,000,000	4,000,000	676,005	3,323,995	2,000,000
2021	2,000,000	4,000,000	2,992,343	1,007,657	1,007,657
2022	2,000,000	3,007,657	2,425,254	582,403	582,403

Source: Department of Revenue.



### **III. Agency Response**



## **Legislative Auditor's Summary of Agency Response**

This summary meets the requirement of Neb. Rev. Stat. § 50-1210 that the Legislative Auditor briefly summarize the agency's response to the draft performance audit report and describe any significant disagreements the agency has with the report or recommendations.

The Department of Revenue provided no comments about the draft report.



# State of Nebraska

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March 19, 2024

Stephanie Meese, Legislative Auditor  
Nebraska Legislature  
1225 L St., Suite 502  
P.O. Box 94604  
Lincoln, NE 68509-4604

Dear Stephanie:

You have asked the Legislative Fiscal Office to review the draft report, entitled “Nebraska Advantage Microenterprise Tax Credit Act: Performance on Selected Metrics,” as to whether the recommendations can be implemented by the agency within its current appropriations.

Our review indicates that there should be no likely fiscal impact as a result of the recommendations included.

If you have any questions, please do not hesitate to contact me.

Sincerely,

Keisha Patent  
Legislative Fiscal Analyst