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FOR IMMEDIATE RELEASE
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November 15, 2018

Performance Audit Committee Releases Two Tax Incentive Audits

The Legislative Audit Office today released reports on two tax incentive programs. Performance Audit Committee Chairman John Kuehn said that the reports provide the Legislature with new information on the Nebraska Advantage Microenterprise Tax Credit Act and the Beginning Farmer Tax Credit Act.

The audits are the fourth and fifth performed under a 2015 law that requires all economic development tax incentives to receive such a review by the Legislative Audit Office at least once every five years.

In the Microenterprise report, the Audit Office found that, although the Act was intended to benefit mostly rural areas, urban areas saw more benefit from 2012 to 2017, the most recent years examined by the audit.

Additionally, the Audit Office found that, when compared to other incentive programs, 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 to administer, and 3) make it difficult for individuals to comply with program requirements. These issues may factor into declining interest in the program.

The Audit Office recommends that the Legislature further investigate with an Interim Study aimed at fully exploring, and proposing solutions to, administrative and compliance difficulties caused by design and definitional issues.

The Beginning Farmer Tax Credit Act report issued several important findings and Committee recommendations relating to substantive policy questions. The report found that the Beginning Farmer Board's practice of allowing beginning farmers to participate multiple times under the Act to be at odds with both the Act itself and the legislative history. It also found the Board's practice of allowing asset owners to participate multiple times under the Act to be at odds with the Act itself. The Committee issued recommendations for both practices that require the Board to come into compliance with the Act and will follow up as necessary.

The report also found that certain sections of the Act are contradictory to sections of revenue statutes that authorize the credits allowable under the Act. The Committee recommends that the statutes be harmonized and will draft legislation to do so.

The report also made a finding relating to the Board's practice of allowing a newer type of lease agreement, flex rent. It found that flex rent lease agreement costs may rise beyond the Board's expectations in the future. The Committee made a recommendation that the Board stop approving flex rent lease agreements and stated that they will follow up with the Board to ensure compliance.

Senator Kuehn said, regarding the Beginning Farmer Tax Credit Act report, "The Committee will work with the Board to implement the recommendations. Tax incentive audits, as required by statute, provide an important oversight function that give the Legislature important information to make more-informed policy choices."

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

Performance Audit Committee
Nebraska Legislature

November 2018

Performance Audit Committee

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Senator Suzanne Geist, Vice Chair
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Audit reports are available on the Unicameral's Web site (www.nebraskalegislature.gov) or can be obtained from the Legislative Audit Office at (402) 471-1282.

LEGISLATIVE AUDIT OFFICE
Nebraska Legislature
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I. Committee Recommendations

Audit Summary and Committee Recommendations

The Nebraska Advantage Microenterprise Tax Credit Act (Microenterprise Act or Act) is a tax incentive directed towards small businesses with five or fewer full time-equivalent employees and is administered by the Department of Revenue (Department or Revenue). Refundable income tax credits are awarded to owner/operators of microbusinesses for 20% of additional compensation and investment over a base year. The program has a $2 million annual cap on applications. Taxpayer credits are limited by estimations provided to Revenue and a $10,000 lifetime cap.

Section I of the audit report describes the program and additional details on participation, benefit usage, and policy issues. Section II presents our analysis of program metrics, organized by the scope statement question to which they apply. The Findings and Performance Audit Committee recommendations for each scope question and policy issue follow below.

Analysis of Metrics

The metrics used in this audit were selected by policymakers several years after the Microenterprise Act's adoption, meaning the expected performance of the Act in relation to the metrics is largely unknown. Without a standard of expected performance, the Audit Office (Office) could not make simple "yes" or "no" judgements about whether the reported performance meets policymakers expectations. Instead, the Office simply reports the results of the analysis for each metric.

The Audit Office does not assert that the actions of incentivized companies reported here were caused by their participation in the Microenterprise Act. Because a company's actions may be the result of many factors, it is difficult, if not impossible, to prove the effect of participation in one program.

Performance Audit Committee Recommendations

Scope Question: *Is the Act meeting the goal of strengthening the state's economy overall by attracting new business to the state, expanding existing businesses, increasing employment, creating high-quality jobs, and increasing business investment?*

Job Creation Metric

How many businesses increased employment after participation in the Microenterprise Act?

The Audit Office identified 620 firms that began participating in the Nebraska Advantage Microenterprise Program (program) in 2010, 2012, and 2014. The Office used Revenue wage data to determine that 222 (36%) had more full-and part-time employees four years after their base years (the base year is the year before the year the firm applied). Another

107 (17%) had fewer employees after four years and 291 (47%) had the same number. The vast majority of firms with no change had no W-2s, meaning they had no employees in either the first or last year examined.

It is not possible to estimate from the Revenue data *how many* new employees firms hired. So for one of the years we reviewed, 2014, we used Department of Labor unemployment insurance data to estimate the number of additional full-time and part-time employees at the 164 firms that applied that year. Using two methodologies, we found that the 164 firms had a net increase of either 416 or 472 jobs, depending on how the estimate was calculated.

There is no finding for this metric because the Act does not require job creation.

Cost per Job Metric

How much revenue was forgone for each job associated with the Microenterprise Act?

Depending on the method used for determining job increases and how the "but-for" question is treated, 2014 applicants had an estimated cost per job of between $2,349 and $10,655. This includes full-time and part-time jobs.

There is no finding for this metric because there is no standard to compare the program data to in order to judge whether the amount is enough to meet policymakers' expectations.

Wages Metric

How many participating firms increased wages?

Of the 620 firms we reviewed, 44% paid more in annual wages four years after their base year. Another 16% paid less total wages, and 39% had no change in yearly wages paid. For those that had no changes, the vast majority had no jobs to pay wages to in either year examined.

There is no finding on this metric because the Act does not have wage requirements.

New to Nebraska Metric

How many companies participating in the Microenterprise Act were new to the state?

Of the 164 firms with approved applications in 2014, 91 (55%) were expansions of existing businesses and 73 (45%) were new to Nebraska. Of the new companies, two were high-tech firms and three were renewable energy firms, as defined by the Legislature.

There is no finding on this metric because there is no standard to compare the program data to in order to judge whether the amount is enough to meet policymakers' expectations.

Scope Question: *Is the Act meeting the goal of revitalizing rural and other distressed areas of the state?*

Rural Areas Metric

How much Microenterprise Act benefit has been provided to rural areas?

From 2007 to 2017, rural areas, as defined in the Legislative Performance Audit Act, received $7.93 million (55%) of the total credits issued from the Microenterprise Tax Credit Act. Urban areas received $6.55 million (45%) of the total credits issued.

Although rural areas have seen more credit for the life of the program, from 2012 to 2017, more credits went to urban areas than to rural areas.

Finding: For rural areas, as currently defined by the Legislature, the Microenterprise Tax Credit Act has not recently met original expectations that the program benefit mostly rural areas.

Recommendation: If the Legislature wants the Microenterprise Act to mostly benefit rural areas, it should amend the Act to do so.

Distressed Areas Metric

How much Microenterprise Act benefit has been provided to distressed areas of the state?

In the three years examined for the statutory definition of this metric, 81 of the 620 (13%) approved applications were for firms in locations that were distressed at the time of the application. Those 81 firms received $663,098 in credit.

There is no finding on this metric because there is no standard to compare the program data to in order to judge whether the amount is enough to meet policymakers' expectations.

Scope Question: *Is the Act meeting the goal of diversifying the state's economy and positioning Nebraska for the future by stimulating entrepreneurial, high-tech, and renewable energy firms?*

High-tech Sector Metric

Is the Act stimulating high-tech firms in the state?

From 2007 to 2017, 50 (2%) of 2,076 firms receiving credit under the Act met the definition of "high-tech" firm, accounting for nearly $432,000 in benefits. Of the $432,000 in credits, the Computer Systems and Design and Related Systems industry sector received the most credits—$222,000 (51%) by 26 firms.

There is no finding on this metric because there is no standard to compare the program data to in order to judge whether the amount is enough to meet policymakers' expectations.

Renewable Energy Sector Metric

Is the Act stimulating renewable energy firms in the state?

From 2007 to 2017, 393 (19%) of 2,076 firms receiving credit under the Act met the definition of "renewable energy" firm, accounting for nearly $2.6 million in benefits. Of the nearly $2.6 million in credits paid to those firms, $2.3 million (88%) went to agriculture-related firms.

There is no finding on this metric because there is no standard to compare the program data to in order to judge whether the amount is enough to meet policymakers' expectations.

Scope Question: *What are the economic and fiscal impacts of the Act?*

Administrative Cost Metric

What is the cost to administer and promote all tax incentive programs?

Using data for 2016 to 2018 provided by the Department of Revenue and the Department of Economic Development, costs for administering and promoting all tax incentive programs was $5.2 million.

Costs to Revenue are for employees that work on tax incentive programs. This includes those who work solely on incentive programs as well as time working on incentives for those who split their time between incentives and other duties.

Costs to the Department of Economic Development are for promotional efforts for tax incentive programs. This does not include other business recruitment efforts.

There is no finding on this metric because there is no standard to compare the program data to in order to judge whether the amount meets policymakers' expectations.

Scope Question: *Are adequate protections in place to ensure the fiscal impact of the Act does not increase substantially beyond the state's expectations?*

Fiscal Protections Metric

What are the fiscal protections in the Act?

The Microenterprise Tax Credit Act has fiscal protections in place, including a cap on yearly benefits, control of the timing of credit redemptions, and requiring advance notice of participation.

Finding: Because the Microenterprise Tax Credit Act contains several important fiscal protections recommended by The Pew Charitable Trusts, the program is at low risk for exceeding expected costs.

Recommendation: None.

Metrics Requiring Economic Modeling

Due to limitations on existing data and statutory protections on taxpayer confidentiality, the Audit Office was unable to attempt to answer some of the questions that the Performance Audit Committee was most interested in. Those questions include the larger impact of the program on the state economy that would have resulted from analysis using economic modeling software. The Office continues to work to find a way to accomplish the economic modeling analyses.

Policy Questions

In the course of the audit, Revenue staff brought to our attention several concerns about the Microenterprise Act that have affected administration and have potentially had a negative effect on program participation. Although the main focus of tax incentive audits is on the results of the programs, the policy issues revealed in the course of the audit were significant enough to bring to the attention of policymakers.

Finding: Department of Revenue staff reported that compared to other incentive programs they administer, 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 to administer, and 3) make it difficult for individuals to comply with program requirements.

Recommendation: The Performance Audit Committee will introduce an Interim Study aimed at fully exploring, and proposing solutions to, administrative and compliance difficulties caused by design and definitional issues.

II. Legislative Audit Office Report

Legislative Audit Office Report

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

November 2018

Prepared by
Anthony Circo
Craig Beck
Martha Carter
Franceska Cassell

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INTRODUCTION

The Legislative Audit Office is required to conduct a performance audit of each business tax incentive program at least once every five years. In 2016, we released the first performance audit under the requirement. In 2018, we release reports on the Beginning Farmer Tax Credit Act and the Nebraska Advantage Microenterprise Tax Credit Act. Both provide certain tax benefits to companies or individuals that meet specific requirements. This is the first audit of the Nebraska Advantage Microenterprise Act.

Nebraska Advantage Microenterprise Act

The Nebraska Advantage Microenterprise Tax Credit Act (Microenterprise Act or Act) was passed in 2005 (LB 312) 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.[1]

The Microenterprise Act is a tax incentive directed towards small businesses with five or fewer full-time equivalent employees and is administered by the Department of Revenue. Refundable income tax credits are awarded to owner/operators of microbusinesses for 20% of additional compensation and investment over a base year. The program has a $2 million annual cap on applications. Taxpayer credits are limited by estimates provided during the application process and a $10,000 lifetime cap.

Measuring Effectiveness

In previous reports, the Audit Office (Office) has noted that it is difficult to determine whether Nebraska's tax incentive programs are effective because the laws creating them do not have clear goals and specific measures for achieving those goals. To address these issues with assessing effectiveness, the Performance Audit Committee introduced and the Legislature passed a legislative resolution (LR 444), which authorized an interim study that identified metrics for tax incentive performance audits. LB 538, passed in 2015, required the Legislative Audit Office to perform ongoing tax incentive audits, using the LR 444 report's recommended metrics when possible.

Not all LR 444 metrics are applicable to all tax incentive programs for various reasons. The Office identified 11 metrics from the report that can be used in evaluating the Microenterprise program. When applicable, we also use metrics derived from the statutes that created the incentive program, found in § 50-1209 of the Legislative Performance Audit Act, and discussed in the legislative history. Following are the metrics used in this audit and their source.

[1] Neb. Rev. Stat. §§ 77-5901-77-5908.

Metrics for Nebraska Advantage Microenterprise Tax Credit Act Audit

Source	Description
Audit Statute	Job creation by incentivized companies
LR 444	Cost per job
Audit Statute	New to Nebraska
LR 444	Wages
Audit statute	Rural areas
Audit Statute	Distressed areas
Audit Statute	High-tech firms
Audit Statute	Renewable energy firms
Audit Statute	Economic and fiscal impacts
LR 444	Cost for agency to administer and promote the Act
Audit Statute	Fiscal protections

Report Organization

Section I describes the Microenterprise program and an analysis of descriptive program information. Section II contains our analysis of the metrics.

We conducted this performance audit in accordance with generally accepted government auditing standards with two exceptions based on statutory changes made in 2017. LB 210, introduced by the Legislative Performance Audit Committee, established guidelines for continuing education hours and peer review frequency that differ from government auditing standards. The law authorizes the Audit Office to work with the Audit Committee to determine the appropriate number of hours of continuing education needed, in place of the requirement in the standards that each auditor obtain 80 hours every two years. Additionally, the bill allows the Office to have an outside peer review every five years, rather than every three as standards require. As required by the auditing standards, we assessed the significance of noncompliance with the continuing education and peer review standards on the objectives for this audit and determined there was no impact.

LB 210 made no changes to 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 briefly described in each section.

Acknowledgements

The Legislative Audit Office extends special thanks to Tax Commissioner Tony Fulton and Commissioner of Labor John Albin. We also appreciate the assistance of Mary Hugo, Kate Knapp, Liz Gau, Julie Burcham, and Garrett Nedved at the Department of Revenue; Scott Hunzeker at the Department of Labor; David Dearmont at the Department of Economic Development; and Professor Kent Eskridge of the University of Nebraska–Lincoln.

SECTION I: The Nebraska Advantage Microenterprise Tax Credit Program

In this section, we describe the Nebraska Advantage Microenterprise Tax Credit program (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.

Qualification Requirements

The Nebraska Advantage Microenterprise Tax Credit Act (Microenterprise Act or Act) has a broad definition of eligible taxpayers that includes individuals and several business structures. However, the tax credit is received by individual applicants, not businesses. The individual 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, the Act limits participants to those businesses that 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; or
- Production of fruits, herbs, tree products, vegetables, tree nuts, dried fruits, organic crops or nursery crops.

By law, the program is capped at $2 million per year.[2] Applicants provide an estimated tax credit to be earned on their application. To ensure the cap is not exceeded, the Department of Revenue (Department or Revenue) approves applications on a first-come, first-serve basis. Once estimated credits from accepted applications reach $2 million, no more applications are approved for the year.

Earning Credit

Taxpayers earn credit by increasing the amount spent on new compensation and/or new investment over what they had spent in the base year (the tax year before their application year). Compensation includes all 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; and
- Advertising, legal, and professional services.

[2] Neb. Rev. Stat. § 77-5905(2) allows the Department to approve more than the $2 million cap in a year if, in the previous year, the cap was not reached. However, this circumstance has not yet occurred.

Participants and related parties, as defined by the Act, may receive a lifetime maximum credit of $10,000. If a person applies, but a related person has already received $10,000 of credit, they are not eligible to participate. Applicants have two years—the application year and the following year—to increase compensation and/or qualified investment over the base year, and receive a 20% credit for increases over the amount spent in the base year. The credit is refundable, meaning the participant receives the full amount even if they have no tax liability. If the individual lifetime credit limit is not reached after their first time participating, the taxpayer may reapply to the program in subsequent years until the limit is reached.

Since 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 would have gone to the state general fund.

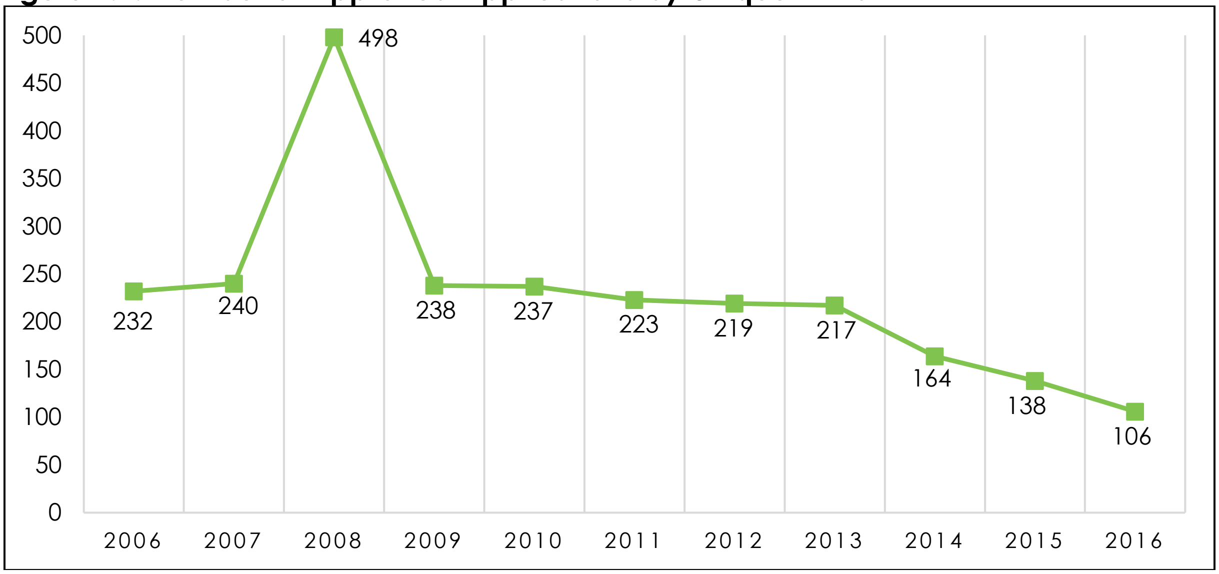
Participation and Credit Use

The first applications to the program were received in 2006. As shown in Figure 1.1, in four of the first five program years (2006, 2007, 2009, and 2010), the number of approved applications was steady at 232 to 240 firms per year. In 2008, however, the number jumped to 498.[3] The number of approved applications returned to the lower amount the next year, where it remained relatively steady (above 200 per year) through 2013. In 2014, it dropped to 164 and continued to drop until it reached its lowest level of 106 in 2016.

Several factors may have played a role in the declining interest in the program, including a 2008 legislative change that set a limit on the net worth of most agricultural projects and administrative difficulties caused by the Act's design. Both of these factors are discussed later in this report.

[3] In 2008, the estimated credits of the new and previously pending applications accepted on Jan 1 exceeded the $2 million cap. They were then pro-rated to a maximum of a little over $4,000. More taxpayers were approved, but they were able to earn less credit per application.

Figure 1.1. Number of Approved Applications by Unique Firms*

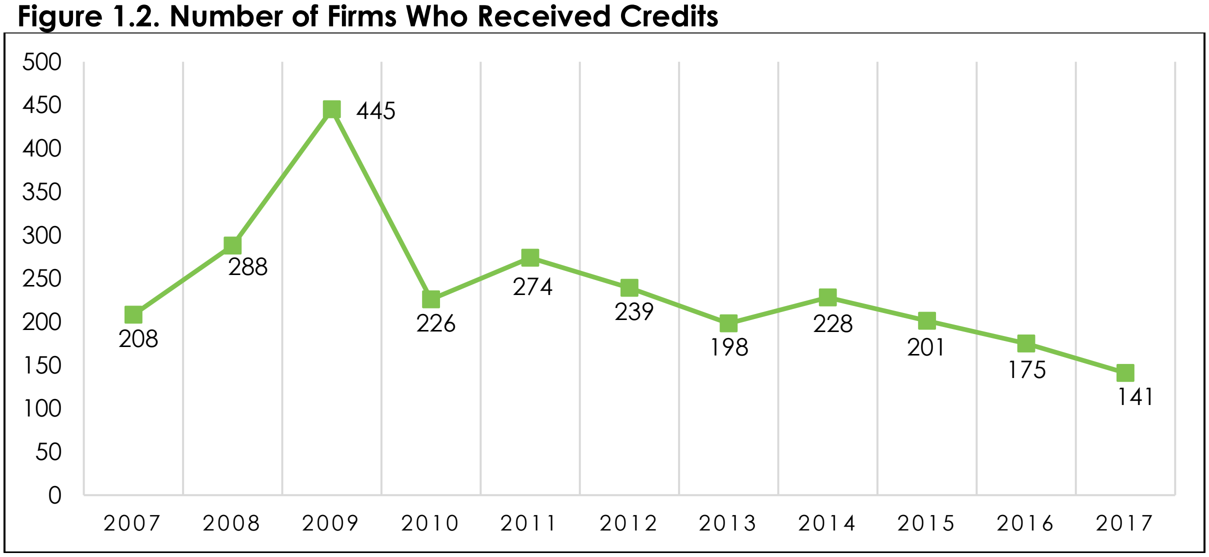


Source: Audit Office analysis of Department of Revenue data.
*Unique firms means each business is only counted one time. A business that has multiple individuals participating for credit—a partnership, for example—is only counted once

Credit Use

Between 2007 and 2017, the number of firms receiving credit ranged from a low of 141 in 2017 to a high of 445 in 2009. In several years, the number of firms receiving credits is higher than the number of approved applicants. This is because participants' claims are typically processed in the year after they earn them, and they can be earned for two years.[4] Figure 1.2 shows the number of recipients each year.

Figure 1.2. Number of Firms Who Received Credits

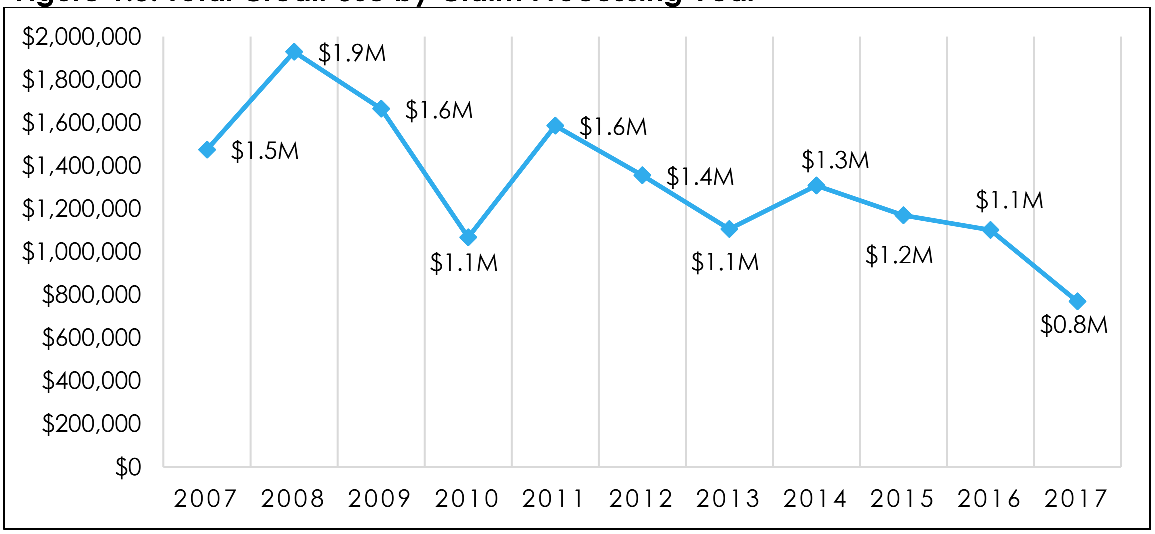


Source: Audit Office analysis of Department of Revenue data.

[4] The statute of limitations on income taxes is three years (§ 77-2786). The vast majority of participants file their claim for credits the year after they earn them; however, some credits have been claimed later.

As shown in Figure 1.3, looking at total credit use also shows a general downward trend from the early program years to the most recent years. The credit amounts reflect how much revenue was forgone by the state each year. The year with the most credit used was 2008, with just under $2 million paid out. By 2017, that number had decreased to less than $800,000. Detailed yearly information on firms and individuals receiving credit can be found in Appendix A.

Figure 1.3. Total Credit Use by Claim Processing Year



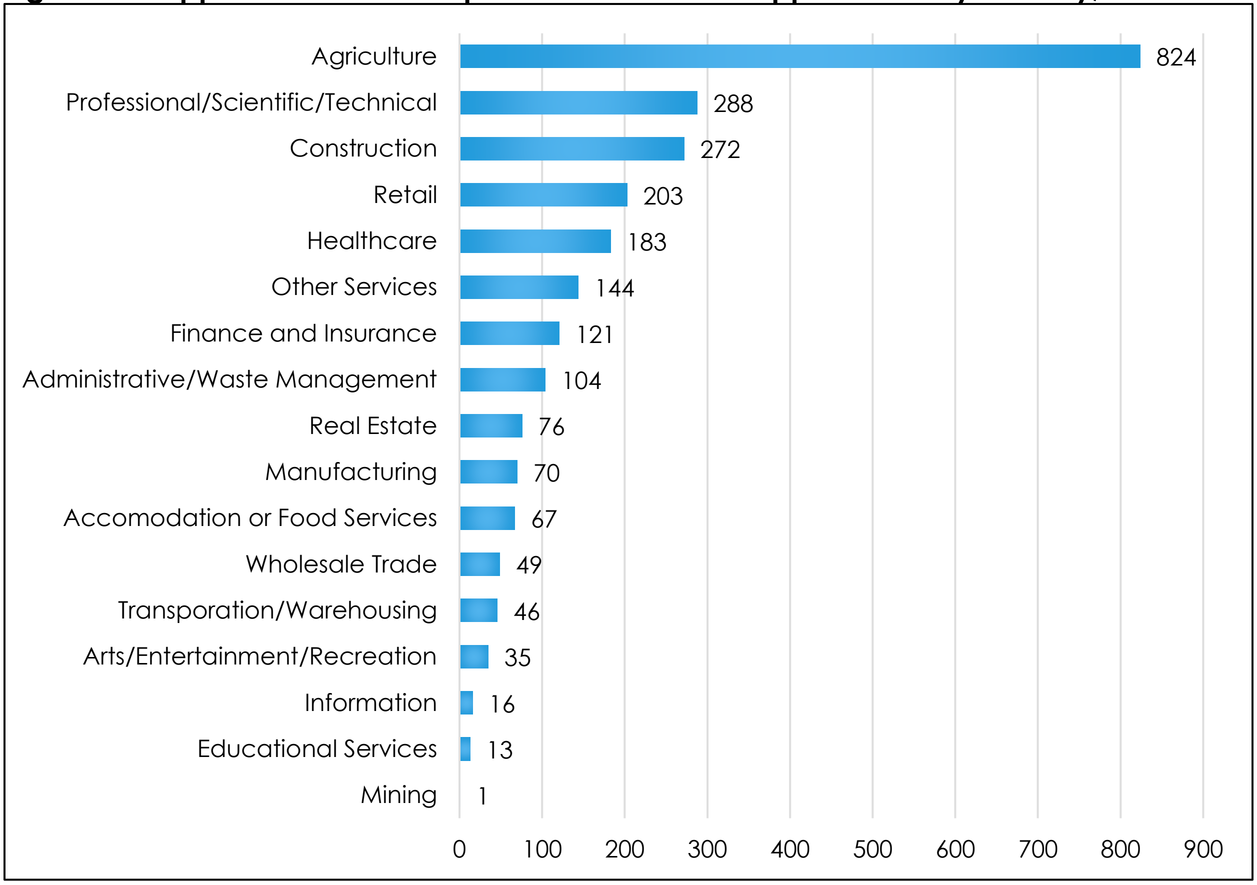
Source: Audit Office analysis of Department of Revenue data.

Industry Participation Breakdown

The North American Industry Classification System (NAICS) categorizes industry types and identifies 20 different industry sectors. Between 2006 and 2016, businesses participating in the Act were reflected in 17 of those sectors.

Of the 2,512 approved applications, just over half (55%) represented three industries: Agriculture (33%), Construction (11%), and Professional Services (11%). Four other industry sectors made up another quarter (26%) of the industries represented: Retail (8%), Health Care (7%), Finance and Insurance (5%), and Other (6%). The remaining 19% of the participants represented 10 industry sectors as shown in Figure 1.4. Complete yearly application breakdowns by industry can be found in Appendix A.

Figure 1.4. Approved Microenterprise Tax Credit Act Applications by Industry, 2006-2016



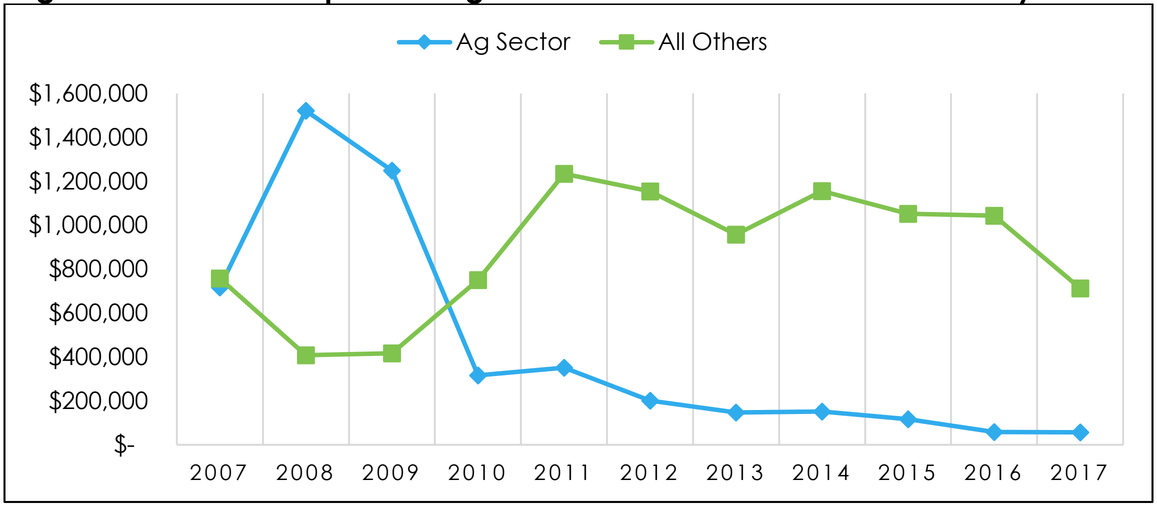
Source: Audit Office analysis of Department of Revenue data.

Change in Agricultural Sector Participation

In 2008, the Legislature passed LB 177, which placed limitations on agricultural activity that qualifies for the Microenterprise tax credit. Starting in 2009, participants in farm and livestock operations could not have a net worth of over $200,000 unless the activity was in a limited number of specified areas.[5] Before the 2008 change, grain farming, which includes corn and soybeans, was the most common agricultural activity, but it was not included as one of the activities that could qualify with a higher net worth. Consequently, a severe drop in approved applications from the sector occurs from 2008 to 2009. Credits for agricultural activity drop similarly in 2010. Non-agricultural industries see a corresponding increase in credits 2010 and 2011. Figure 1.5 shows this change in credit use over time.

[5] Subsequent legislation raised the net worth limitation (LB 531 [2009] and LB 246 [2015]); however, the activities that were limited remained the same.

Figure 1.5. Credit Comparison: Agriculture Sector versus All Other Industry Sectors

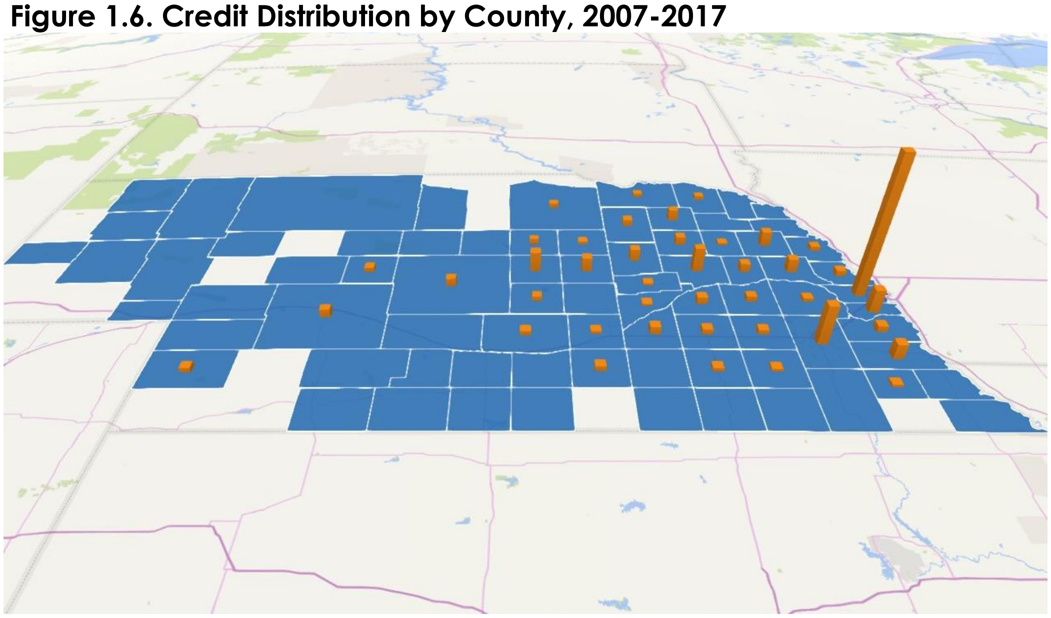


Source: Audit Office analysis of Department of Revenue data.

Geographic Distribution

The Microenterprise Tax Credit has provided benefits to individuals in 79 (86%) of Nebraska's 93 counties. However, to protect taxpayer confidentiality, the Office can only disclose the amount of benefits in the 41 counties where at least 10 individuals received credit. As might be expected, individuals in the state's highest population counties received the most credits. Douglas County residents received over $4 million, followed by Lancaster residents at $1.1 million, Platte residents at $700,000, Sarpy residents at $680,000 and Valley residents at $570,000. Figure 1.6 shows the relative amount of credits received by individuals in the 41 counties we can report on. Complete figures for reportable counties can be found in Appendix A.

Figure 1.6. Credit Distribution by County, 2007-2017



Source: Audit Office analysis of Department of Revenue data.
Blue: Counties receiving credit.
Orange: Credit amounts for counties with 10 or more credit-receiving individuals.

County per Capita Benefits

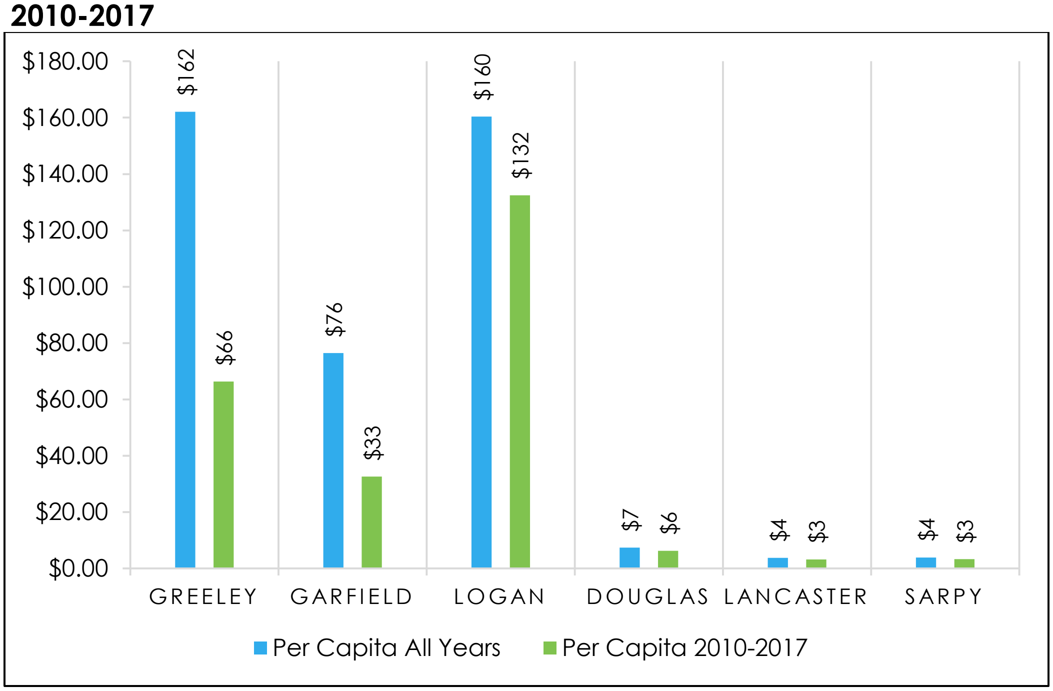
When population is taken into account by looking at per capita benefits, smaller counties tended to receive more benefit per person. From 2007 to 2017, the three counties with the highest per capita benefit were Greeley ($162 per person), Logan ($160), and Valley ($137). In contrast, the three largest counties had some of the lowest per capita benefits: Douglas ($7.39), Lancaster ($3.71), and Sarpy ($3.87).

To identify any potential impact from the 2008 legislative change on per capita benefits, we also compiled the information for only the years after the legislative change went into effect. We then compared the three largest and three smallest counties that had at least 10 credit-receiving individuals in both time periods.

As shown in Figure 1.7, smaller population counties generally continued to receive larger per capita benefits than did higher population counties. The smallest counties that we can report for this period—Greeley, Garfield, and Logan—continued to have some of the highest per capita benefits at $66, $33, and $132 respectively. The largest counties—Douglas, Lancaster, and Sarpy—continued to have some of the lowest at $6.19, $5.71, and $3.25 respectively.

However, the counties with the higher per capita rate tended to see a more negative impact after the change. For example, Greeley County's per capita rate dropped to 41% of its previous rate, and Garfield's and Logan's dropped to 43% and 83%, respectively. Whereas Douglas, Lancaster, and Sarpy County rates after the change are 84%, 86%, and 84% of their previous rate, respectively. For complete figures on reportable counties, see Appendix A.

Figure 1.7. Per Capita Benefit Comparison by County: All Years versus 2010-2017



Source: Audit Office analysis of Department of Revenue data.

Omaha

We took a closer look at Douglas County and the Omaha area since it is the largest metropolitan area in the state and has had the most participation. The Office was able to use the Department of Revenue's Microenterprise Tax Incentive database to sort firm locations into zip codes. Although disclosure rules prevent us from reporting the amount of benefits received at a geographic level smaller than statewide if there are fewer than 10 recipients, there is no such issue with disclosing the number of applications at a smaller geographic level.

Application data can serve as a rough proxy for the amount of assistance the Act has provided to these areas because it indicates the maximum number of firms that *could have* received credits. Again, if a single firm has more than one applicant, that business has only been counted once for this metric.

Zip codes in Douglas County, which includes Omaha, had 658 total approved applications from 2006-2016. The largest number of applications in a single zip code was 80, found in 68116.

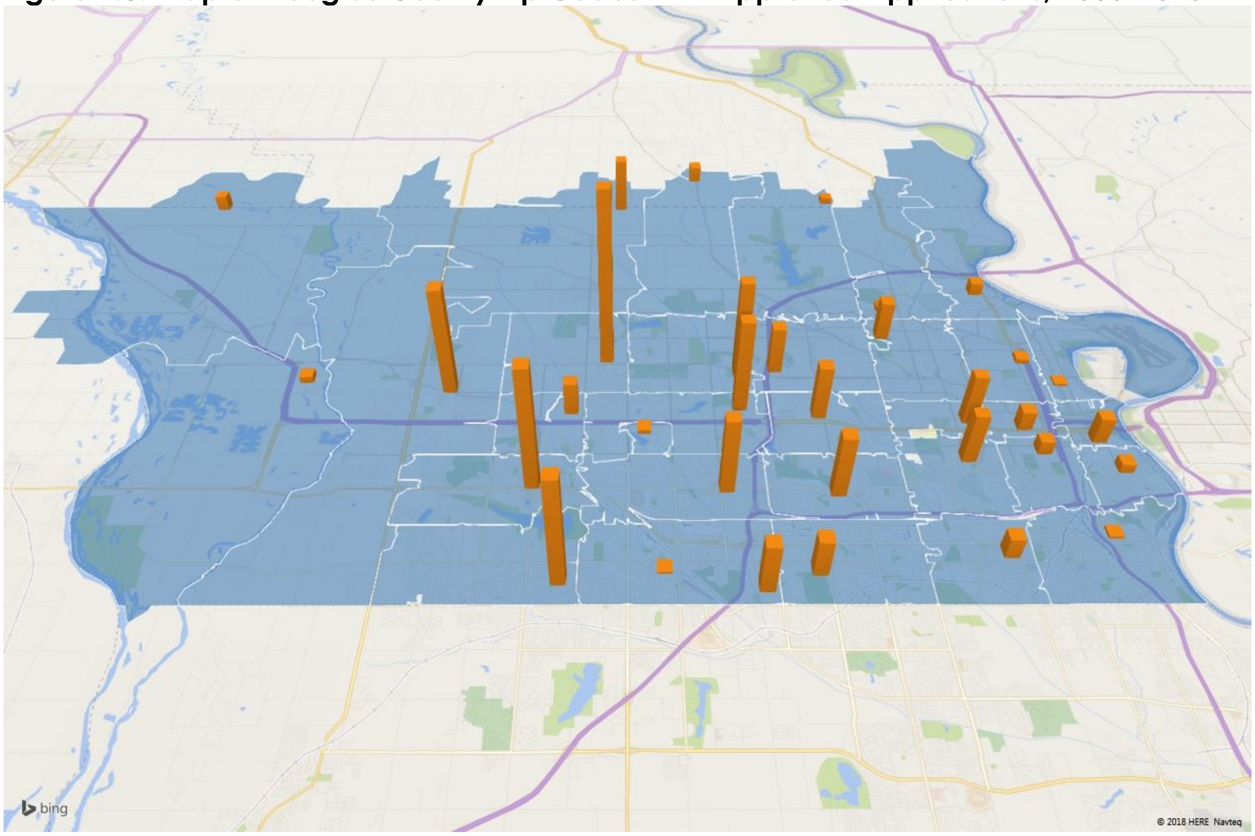
When we look at the areas of Omaha that have historically had high poverty and unemployment rates, we see that they have had relatively lower participation in the program than other areas. The zip codes that cover the center of North Omaha—68110, 68111, and 68112—have a combined nine approved applications.[6] The zip codes south of the downtown area—68107, 68108, and 68117—have a combined 14 approved applications.[7] In total, applications in North and South Omaha represented 3.5% of the applications in the Douglas county zip codes.

Figure 1.8 shows the outlines of zip codes along with a bar graph that represents the total number of approved applications. Detailed information regarding individual zip codes can be found in Appendix A.

[6] These zip codes roughly correspond to Legislative Districts 11 and 13.

[7] These zip codes roughly correspond to Legislative Districts 7 and 5. It excludes the northern part of LD 7, which has the downtown and Old Market areas. If 68105 is included, which would then bring in most of the rest of LD 5 and part of LD 9 into "South Omaha," another 6 applications are included for a total of 20.

Figure 1.8. Map of Douglas County Zip Codes with Approved Applications, 2006-2016



Source: Audit Office analysis of Department of Revenue data.
Blue: Zip code with approved application.
Orange: Number of applications.

Policy Issues

In the course of the audit, Department of Revenue staff brought to our attention several concerns about the Microenterprise Act that have affected administration and have potentially had a negative effect on program participation. Although the main focus of tax incentive audits is on the results of the programs, the policy issues revealed in the course of the audit were significant enough to bring to the attention of policymakers.

Finding: Department of Revenue staff reported that compared to other incentive programs they administer, 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 to administer, and 3) make it difficult for individuals to comply with program requirements.

Lack of Transaction Limitations

Tax incentive acts often contain a "limitations" section that prevents companies from earning credit for transactions that are not an increase in economic activity as intended by the Legislature. Tax incentives that have such limitation sections include the Nebraska Advantage Act, the Nebraska Advantage Rural Development Act, and the Angel Investment Tax Credit Act.

The Microenterprise Act does not contain a limitations section, and Revenue staff told us they have seen examples of participants attempting to claim credit on activities that are prohibited in other incentive acts. For example, they have seen Microenterprise participants engage in four activities prohibited by the Nebraska Advantage Act:

1. Claiming credit for acquiring an existing business;
2. Renegotiation of a lease currently in effect;
3. Purchasing or leasing property previously owned by the taxpayer or related person; and
4. Transactions without a business purpose and that do not result in increased economic activity.

Although there is no specific prohibition on these activities in the Microenterprise statutes, Revenue staff have interpreted that such activities conflict with the Act's purpose section, which states: "The purpose of the act is to provide tax credits to applicants for creating or expanding microbusinesses **that contribute to the state's economy** through the creation of new or improved income, self-employment, or other new jobs" (emphasis added).[8] The first of the four issues listed has been publicly addressed through a General Information Letter. However, Revenue staff have stated that direct prohibitions in statute are preferable.

Other Design Issues

Revenue staff also identified other design issues that are specific to the Microenterprise Act that have caused difficulty in administering the program and confusion for participants. One example deals with company restructuring.

Some individuals have tried to earn credit by changing their firm's structure. For example, an applicant who is a sole proprietor reports $50,000 of income on their individual tax return for the base year. The next year they form an S-Corporation and receive a W-2 from the new corporation for $50,000; then try to claim the S-Corporation's $50,000 is new compensation eligible for the Microenterprise credit.

Again, Revenue staff have interpreted that such activities conflict with the Act's purpose section and do not allow them to be used to claim credit. However, a direct prohibition on such activities within the Act itself would address confusion on the part of participants and relieve administrative burdens.

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[8] Neb. Rev. Stat. § 77-5902.

Lack of Definitions

Additionally, the lack of definitions for various activities that do qualify for credit can make administration difficult. For example, “new investment” includes expenditures on advertising, legal, and professional services. However, little guidance is given as to what qualifies as a “professional service”. The work of accountants and lawyers would seem to be professional services; however, other spending is a less clear. Participants have attempted to claim credit for things like interior design, market analysis, and other less-straightforward “professional services”. The only statutory guidance for handling these kinds of claims is the previously-mentioned purpose section, which broadly states that the Act is intended to benefit microbusinesses that increase economic activity.

Other terms identified by Revenue staff that could be more clearly defined to reduce administrative burden and taxpayer confusion include:

- Compensation;
- Advertising; and
- Repair and maintenance.

Potential Depressive Effect on Participation

Department of Revenue staff said the Microenterprise Act is relatively burdensome for both the Department and the taxpayer compared to other tax incentives. According to Revenue staff, the amount of paperwork (including the application process; maintaining, copying, sending receipts; and sometimes-lengthy correspondence with the Department on questions arising from the design and definitional issues discussed above) has had a negative effect on participation. Some Certified Public Accountants (CPAs) charge their clients up to $2,000—which is 20% of the lifetime benefit allowed—to apply for the Act. Other CPAs simply no longer offer Microenterprise assistance for their clients due to the work involved in applying and qualifying for the credit. With a lifetime limit of $10,000, the compliance burden may outweigh the potential benefit, especially for individuals who do not anticipate reaching the individual cap.

SECTION II: Analysis of Metrics

Before presenting the 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 participant's 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 a program that had 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.

The Performance Audit Committee asked the Audit Office to answer five questions regarding the Nebraska Advantage Microenterprise Tax Credit Act (Microenterprise Act or Act), utilizing the metrics listed below each question:

1. Is the Act meeting the goal of strengthening the state's economy overall by attracting new business to the state, expanding existing businesses, increasing employment, creating high-quality jobs, and increasing business investment?

    - How many jobs did incentivized companies create during the time period?
    - How much job-creation-related tax benefit did incentivized companies receive for each new job it created during the period?
    - How many incentivized companies were new to Nebraska?

2. Is the Act meeting the goal of revitalizing rural and other distressed areas of the state?

    - To what extent are Microenterprise tax credits being utilized in rural areas?
    - To what extent are Microenterprise tax credits being utilized in distressed areas?

3. Is the Act meeting the goal of diversifying the state's economy and positioning Nebraska for the future by stimulating entrepreneurial, high-tech, and renewable energy firms?

    - To what extent are Microenterprise tax credits being utilized by high-tech companies?
    - To what extent are Microenterprise tax credits being utilized by renewable energy companies?

4. What are the Act's economic and fiscal impacts?

    - What is the cost to administer the Act?
    - How much tax credit has the Act provided?

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?

    - What are the fiscal protections in the Act?

6. What can be done to improve future audits?

Section I of this report discussed the amount of tax credit the Act has provided, and the Office does not have suggestions to improve future audits. Following is a discussion of the remaining metrics.

Jobs

How many businesses increased employment after participation in the Microenterprise Act?

Results

The Audit Office (Office) identified 620 firms that began participating in the Nebraska Advantage Microenterprise Program (program) in 2010, 2012, and 2014. The Office used Department of Revenue (Department or Revenue) wage data to determine that 222 (36%) had more full- and part-time employees four years after their base years (the base year is the year before the year the firm applied). Another 107 (17%) had fewer employees after four years, and 291 (47%) had the same number. The vast majority of firms with no change had no W-2s, meaning they had no employees in either the first or last year examined.

Although an increase in the number of employees based on yearly W-2s suggests an increase in jobs, it may overestimate the number of new jobs because of employee turnover—one job could have two or more employees in a given year. However, it is the best estimate we could provide with available data.

It is not possible to estimate from the Revenue data *how many* new employees firms hired. So for one of the years we reviewed, 2014, we used Department of Labor unemployment insurance data to estimate the number of additional full-time and part-time employees at the 164 firms that applied that year. Using two methodologies,[9] we found that the 164 firms had a net increase of either 416 or 472 jobs, depending on how the estimate was calculated.

In both methodologies that use Labor data, the net increase resulted from more than 50% of the companies having an increase in employees and less than 15% of the companies having a decrease. Both methodologies also showed that the remaining companies (29% or 37%) had no change in the number of employees. The vast majority of firms with no change had no employees in either the first or last year examined.

There is no finding on this metric because the Microenterprise Act does not require job creation.

Discussion/Methodology

The Office used two separate data sources to examine employment at Microenterprise companies: the Department of Revenue's Withholding Account Analysis System and the Department of Labor's Unemployment Insurance Data Warehouse.

[9] Briefly, the difference is based on whether the number is calculated by 1) subtracting the number of jobs in the first quarter of 2013 (the base year) from the number in the last quarter of 2017 or 2) subtracting the average number of jobs in 2017 from the average number in 2013. This is discussed more on page 19.

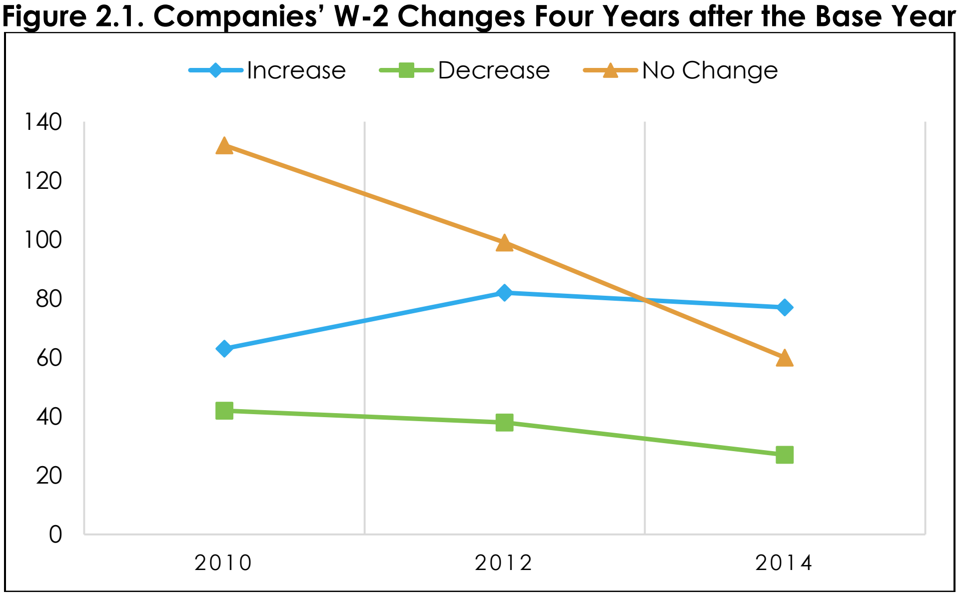
Analysis of Department of Revenue Data

The Office used the Department of Revenue's Withholding Account Analysis System to find information on participating companies' W-2 forms filed annually with the Department. This database provides various information regarding a company's W-2s, including the number of individuals who received a W-2 for employment at the company in a given year. The Office examined all companies with an approved application in the years 2010, 2012, and 2014, and results include both full-time and part-time employees.

Microenterprise applicants earn credit by increasing compensation or investment over their base year—the year prior to their application year. The Office found the number of W-2s each company had in their base year and compared it to what they had four years later.[10] Participation in the Act lasts two years, so a comparison after four years gives a general idea about lasting employment changes beyond companies' participation in the Act.

Combining the three years reviewed, 36% of the companies had increased employment, 17% had decreased employment, and 47% had no change. Of the firms with no change, almost all of them had no employment in either examination year. That means 47% of companies that started the program in these years had no jobs at the beginning or at the end of the examination period. Figure 2.1 shows the number of companies that had increases, decreases, or no change in the number of yearly W-2s filed with the Department. For detailed results, see Appendix B.

Figure 2.1. Companies' W-2 Changes Four Years after the Base Year



Source: Audit Office analysis of Department of Revenue data.

[10] The number of W-2s a company has in a year does not equal the number of jobs or positions they had. It is the number of people who were paid by the company at some point in the year. If someone quits in May and is replaced, both people get a W-2 at the end of the year. Due to this turnover, using the exact number of W-2s would show an artificially high employment. Instead, the Office used yearly W-2s as a relative comparison of the company's base year and four years after, and is therefore an estimate.

Analysis of Department of Labor Data

The other source for employment information was Quarterly Census of Employment and Wages survey information in the Department of Labor's Unemployment Insurance Data Warehouse. This database captures snapshots of company employment. Data for this analysis includes all employees at a company that were on the payroll on a specific date.[11]

The Labor data provides more precise employment information than the Revenue Department data. However, it was more time consuming and labor intensive to match Microenterprise participant data from the Revenue Department with Labor Department data. With the large number of participating firms (462 in 2008 alone) the Office decided to focus on one year for the Labor data analysis. We selected 2014 because it is the most recent application year for which five complete years of data (the base year, two years of participation, and two years of operation after the incentive) were available.

The Office used two methods to determine the increase in employees:

1. Comparing the first quarter of 2013 (the base year) to the fourth quarter of 2017 (the most recent complete year of data available); and
2. Calculating the average yearly employment in 2013 and comparing it to the average yearly employment in 2017.

The first method, quarter to quarter analysis, is simpler and easier to comprehend. It is also the method we have used in previous tax incentive audits. We added the second method for this audit because of the nature of the companies that are incentivized. Employment at these smaller companies is more likely to have relatively higher fluctuation due to seasonal and other factors. Yearly averages take those fluctuations into account.

The quarter-to-quarter analysis shows that 92 firms (56%) had more employees at the end of 2017 than they did at the beginning of 2013 and 10 firms (6%) had fewer. Sixty-two (38%) had the same number of employees, the vast majority of which had no employees in either quarter.

The average-year-to-average-year analysis shows that 95 firms (58%) averaged more employees in 2017 than in 2013, and 21 firms (13%) averaged fewer. Forty-eight firms (29%) averaged the same number of employees in both years, the vast majority of which had no employment in either year. The results are shown in Figure 2.2.

[11] Any employee that was paid for the pay period that includes the 12th day of the third month of the quarter.

Figure 2.2. Changes in Participant's Number of Employees Four Years after Base Year

Method	Firms with More Employees		Firms with No Change	Firms with Fewer Employees		Net Growth
	Number of Firms	Increase in Employees		Number of Firms	Decrease in Employees	
Quarter to Quarter	92	+484	62	10	-12	+472
Average Year to Average Year	95	+435.5	48	21	-19.25	+416.25

Source: Audit Office analysis of Department of Labor data.

We also calculated the increase in employees between the *application* year and 2017 using both methods.[12] Using the application year shows employment differences starting at the time the company was actually participating in the program and being incentivized by it. As shown in Figure 2.3, 164 firms created between 234 and 282 jobs after they started participating, depending on how the estimate was calculated.

Figure 2.3. Changes in Participant's Number of Employees Four Years after Application Year

Method	Firms with More Employees		Firms with No Change	Firms with Fewer Employees		Net Growth
	Number of Firms	Increase in Employees		Number of Firms	Decrease in Employees	
Quarter to Quarter	69	+345	63	32	-63	+282
Average Year to Average Year	81	+295.5	46	37	-61.5	+234

Source: Audit Office analysis of Department of Labor data.

[12] For the quarter to quarter analysis using the application year, the quarter in which the application was approved was used as the starting point.

Cost per Job

How much revenue was forgone for each job associated with the Microenterprise Act?

Results

Depending on the method used for determining job increases and how the "but-for" question is treated, 2014 applicants had an estimated cost per job of between $2,349 and $10,655. This includes full-time and part-time jobs.

There is no finding on this metric because there is no standard to compare the program data to in order to judge whether the amount is enough to meet policymakers' expectations.

Discussion/Methodology

We examined companies with approved applications in 2014 because that is the most recent year for which complete data is available. We used Labor data, not Revenue data, because it provides a more accurate count of employees at a company on specific dates. This analysis includes full-time and part-time employees.

We divided the credits used by companies with approved applications in 2014 into the job-creation figures using Labor data, discussed previously in the Jobs metric section of this report. The credit amounts were obtained from a specialized query of the Microenterprise Tax Incentive database at the Department of Revenue. From the specialized query, the Office utilized pivot tables to parse through and obtain the relevant information.

Due to the statute of limitations, there may be additional credit used by these firms in 2018, but it would not be very much and would have little effect on the results of this analysis. We used both employment credits and investment credits because it was not possible to identify the portion of credits under the $10,000 cap that were due only to employment.[13]

Subject matter experts, including Revenue, acknowledge that some jobs created by incentivized companies would have been created even without the companies' participation in tax incentive programs.[14] This is often referred to as the "but for" question, as in, "How many jobs would not have been created but for the tax incentive?"

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[13] Firms routinely increase spending on employment and investment that would earn credits beyond the cap if it did not exist. It is not possible to know which spending method is responsible for the "first" $10,000 of credit.

[14] For example, see State of Minnesota Office of the Legislative Auditor, *JOBZ Program Evaluation Report*, February 2008, and T. Bartik, G.A. Erickcek, W.E. Upjohn Institute for Economic Research, *Simulating the Effects of Michigan's MEGA Tax Credit Program on Job Creation and Fiscal Benefits,*

There is no simple way to estimate the proportion of jobs that can be attributed to incentive programs and. due to time constraints for this audit, we did not attempt to calculate such an estimate. Instead, we chose to use 25% because it is in a range used in two other states' evaluations that estimated that the proportion of jobs attributable to their incentives was 21% and 24%. However, it is only an estimate.

As can be seen in Figure 2.4, if we assume that 100% of employment growth is directly attributable to the Act, a quarter-to-quarter analysis shows an estimated cost of $2,349 per job. However, if we try to take the "but for" question into account and assume that 25% of the employment growth is due to the Act, then we get an estimated cost of $9,397.

When employment growth numbers from the average-yearly-employment-jobs calculation are used, the cost estimates rise slightly. Attributing 100% of the jobs to the Act gives us an estimated cost of $2,664. Attributing 25% of jobs to the Act gives us an estimated cost of $10,655.

Figure 2.4. Cost per Job Estimates for 2014 Approved Applications: Base Year Methods

Method*	Total Credit	Net Employee Growth	Estimated Cost per Job	
			Attributing 100% of Jobs to the Act	Attributing 25% of Jobs to the Act
Q20131 to Q20174	$1,108,803	472	$2,349	$9,397
Average Base to Average 2017	$1,108,803	416.25	$2,664	$10,655

Source: Audit Office analysis of Departments of Revenue and Labor data.
*See Jobs metric for discussion of the four different methodologies.

The Office also ran a separate cost per job analysis with the job growth numbers found using application years. Using the application year shows employment differences starting at the time the company was actually participating in the program and being incentivized by it. Those results are found in Figure 2.5. The quarter to quarter analysis, when attributing 100% of the jobs to the Act, shows an estimated cost per job of $3,932. A 25% attribution shows an estimated cost per job of $15,728.

Again, when employment growth numbers from the average yearly employment jobs calculation are used, the cost estimates rise. If 100% of the job increase is attributed to the Act, the cost per job estimate is $4,738. Attributing 25% of jobs to the Act gives an estimated cost of $18,954 per job.

2012. For the Revenue Department's acknowledgement of this point, see *Nebraska Tax Incentives 2017 Annual Report to the Legislature*, July 13, 2018, p. 63.

Figure 2.5. Cost per Job Estimates for 2014 Approved Applications: Application Year Methods

Method*	Total Credit	Net Employee Growth	Estimated Cost per Job	
			Attributing 100% of Jobs to the Act	Attributing 25% of Jobs to the Act
Q App to Q20174	$1,108,803	282	$3,932	$15,728
Average Application Year to Average 2017	$1,108,803	234	$4,738	$18,954

Source: Audit Office analysis of Departments of Revenue and Labor data.
*See Jobs metric for discussion of the four different methodologies.

The total credit used by 2014 applicants was $1,108,803. If it is assumed that all of the employment increase is directly attributable to the Act, the cost per job would be between $2,349 and $4,738.

Wages

How many participating firms increased wages?

Results

Of the 620 firms we reviewed, 44% paid more in annual wages four years after their base year. Another 16% paid less total wages, and 39% had no change in yearly wages paid.

There is no finding on this metric because the Act does not have wage requirements.

Discussion/Methodology

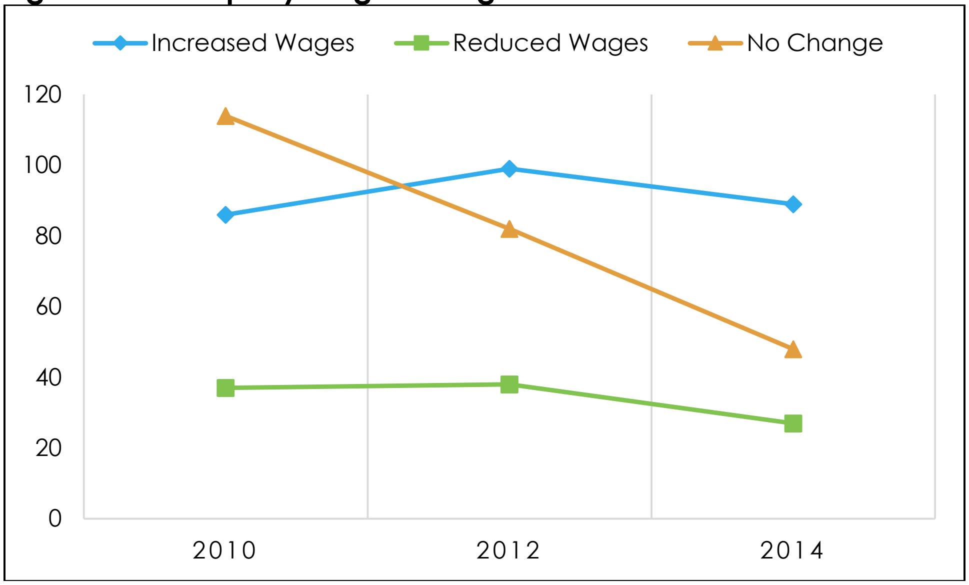
The Audit Office used the Department of Revenue's Withholding Account Analysis System to find information on participant W-2s. This database provides various information regarding a company's W-2s, including the total amount of wages paid out to employees in a given year.

The Office examined all companies with an approved application in the years 2010, 2012 and 2014. This analysis includes both full-time and part-time employees.

Microenterprise applicants earn credit by increasing compensation and/or investment over their base year, which is the year prior to their application year. The Office found the amount of wages paid to employees each company had in their base year, and compared it to what they had four years later. Participation in the Act lasts two years. A comparison after four years gives a general idea about lasting wage changes beyond companies' participation in the Act.

Combing the three years reviewed, 44% increased wages between their base year and 2017. Another 16% paid less and 39% had no changes. For those that had no changes, the vast majority had no jobs to pay wages for in either year examined. Figure 2.6 shows the yearly total number of firms in each category. For detailed results, see Appendix B.

Figure 2.6. Company Wage Changes Four Years after the Base Year



Source: Audit Office analysis of Department of Revenue data.

New to Nebraska

How many companies participating in the Microenterprise Act were new to the state?

Results

Of the 164 firms with approved applications in 2014, 91 (55%) were expansions of existing businesses and 73 (45%) were new to Nebraska. Of the new companies, two were high-tech firms and three were renewable energy firms, as defined by the Legislature.

There is no finding on this metric because there is no standard to compare the program data to in order to judge whether the amount is enough to meet policymakers' expectations.

Discussion/Methodology

Since over 2,000 total firms have participated in the program, the Audit Office was unable to examine all of them. Instead, the Office selected the program's applications from 2014 for examination. We chose 2014 because it is one of the years examined for the W-2 and wage metrics, and it is the year that was selected for closer inspection regarding employment and cost per job. This allows for at least one year to have been examined using all metrics in the audit.

By law, a new business is "a person or unitary group 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."[15] We consider a firm to be "new" to Nebraska if it was created in Nebraska or was the first expansion of an out of state company in Nebraska. If a company is simply reorganized, renamed, or acquired by another firm, its status does not reset to "new." This is consistent with our previous tax incentive audits.

The Office used information from tax returns, W-2s, Microenterprise program applications, and other documentation to make determinations on a firm's status.

This analysis shows the maximum number of companies that theoretically could have been attracted to the state because of the Microenterprise credit. The Office makes no claim as to how many companies actually were formed or attracted to Nebraska because of the program. A survey to examine location decision-making factors could not be conducted due to constraints on time and resources.

[15] Neb. Rev. Stat. § 50-1209(4)(f).

Rural Areas

How much Microenterprise Act benefit has been provided to rural areas?

Results

From 2007 to 2017, rural areas, as defined in the Legislative Performance Audit Act, received $7.93 million (55%) of the total credits issued from the Microenterprise Tax Credit Act. Urban areas received $6.55 million (45%) of the total credits issued.

Although rural areas have seen more credit for the life of the program, from 2012 to 2017, more credits went to urban areas than to rural areas.

> **Finding:** For rural areas, as currently defined by the Legislature, the Microenterprise Tax Credit Act has not recently met original expectations that the program benefit mostly rural areas.

Discussion/Methodology

While the Microenterprise Tax Credit Act does not contain any reference to urban or rural areas, legislators supporting the bill that created the program argued that it would be "essentially rural-oriented."[16] In order to assess whether the program was benefiting rural areas, the Audit Office used the definition in the Performance Audit Act, which defines rural areas as any village or city of the second class in this state, or any county in this state with fewer than 25,000 residents.

Under this definition, most of Nebraska is rural. Of the state's 93 counties, 81 (87%) have populations of less than 25,000. The remaining 12 (13%) have both rural and urban areas, as shown in Figure 2.7.

Similar to the cost per job metric, the credit amounts used in this metric were obtained from a specialized query of the Microenterprise Tax Incentive database at the Department of Revenue. From the specialized query, the Office utilized pivot tables to parse through and obtain the relevant information.

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[16] Nebraska Legislature, *LB 1003 (2006) Legislative History*, remarks by Senator Dave Landis, January 31, 2006, p. 8599.

Figure 2.7. Rural Areas in Nebraska

Rural Counties			Counties with both Urban and Rural Areas (Urban Area*)
Antelope	Furnas	Nemaha	
Arthur	Gage	Nuckolls	Adams (Hastings)
Banner	Garden	Otoe	
Blaine	Garfield	Pawnee	Buffalo (Kearney)
Boone	Gosper	Perkins	
Box Butte	Grant	Phelps	Cass (Plattsmouth)
Boyd	Greeley	Pierce	
Brown	Hamilton	Polk	Dodge (Fremont)
Burt	Harlan	Red Willow	
Butler	Hayes	Richardson	Douglas (Omaha, Ralston)
Cedar	Hitchcock	Rock	
Chase	Holt	Saline	Hall (Grand Island)
Cherry	Hooker	Saunders	
Cheyenne	Howard	Seward	Lancaster (Lincoln)
Clay	Jefferson	Sheridan	
Colfax	Johnson	Sherman	Lincoln (North Platte)
Cuming	Kearney	Sioux	
Custer	Keith	Stanton	Madison (Norfolk)
Dakota	Keya Paha	Thayer	
Dawes	Kimball	Thomas	Platte (Columbus)
Dawson	Knox	Thurston	
Deuel	Logan	Valley	Sarpy (Bellevue, Gretna,
Dixon	Loup	Washington	La Vista, Papillion)
Dundy	McPherson	Wayne	
Fillmore	Merrick	Webster	Scotts Bluff (Gering,
Franklin	Morrill	Wheeler	Scottsbluff)
Frontier	Nance	York	

Source: Audit Office determination based on the definition found in § 50-1209 and using 2015 Census estimates.
* Cities and villages in these counties other than those listed are rural.

The Office looked at whether or not benefits went to rural areas using two analyses: one based on the firm's place of business and another based on the individual applicant's address.

LB 177 (2008) limited the number of people who qualify for the program as it imposed a net-worth requirement on most applicants who had agricultural-related business activities.[17] A large decline in rural participation in the Act occurred after 2009, resulting in more credit going to urban areas.[18]

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[17] Unless applicants were engaged in a few selected agricultural activities, participation was limited to those who had a net worth of $200,000 or less. This limit was raised to $350,000 in 2009 (LB 531) and $500,000 in 2015 (LB 246).
[18] See participation breakdown by industry in Appendix A.

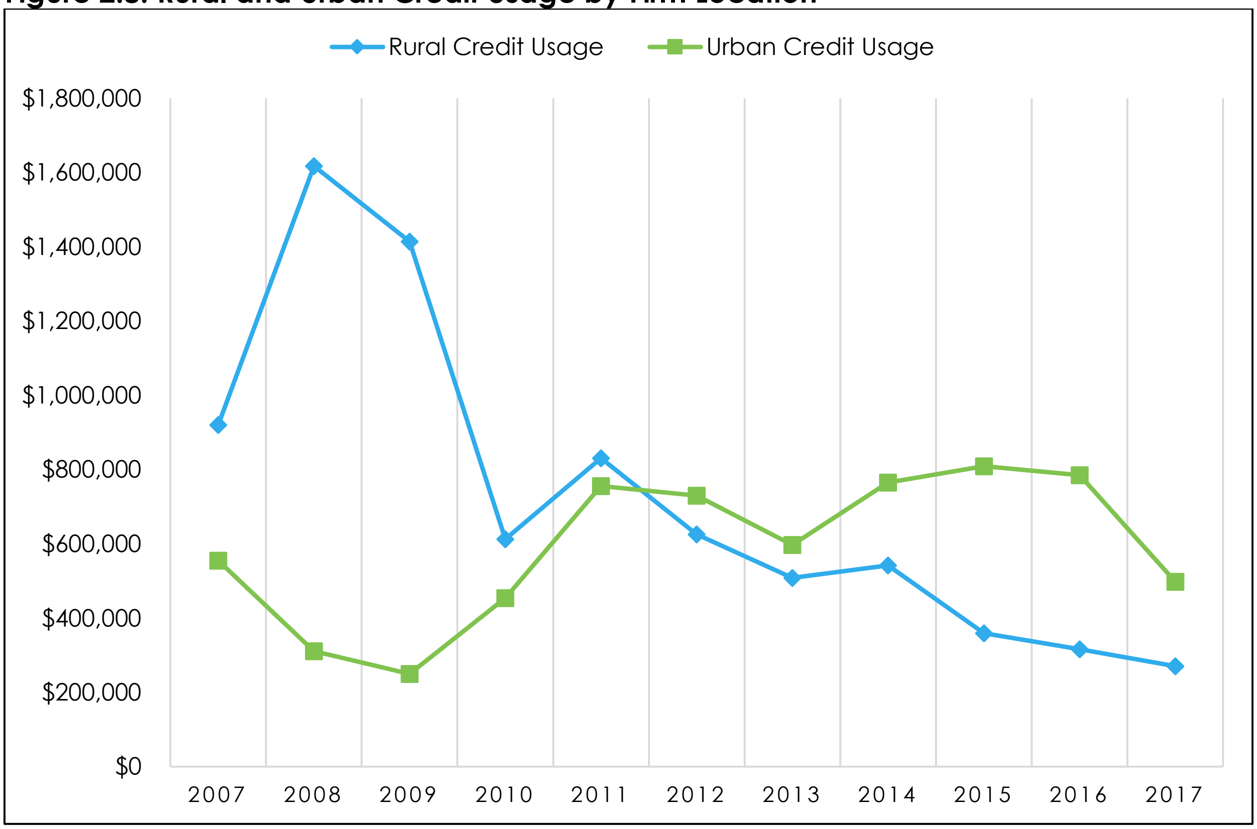
Credits Used—Firms' Locations

We first looked at credit usage by participants' place of business from 2007 to 2017. Of the $14,526,641 in credits earned by firms, rural areas used over $8 million (55%) and urban areas used just over $6.5 million (45%).

Although more total credits have been used in rural areas for the life of the program, in 2012 urban areas began receiving more credit. From 2007 to 2011, rural locations saw 70% of the total benefit. From 2012 to 2017, rural credit share was down to 39%.

As can be seen in Figure 2.8, credit usage in rural areas based on the participants' place of business trended downward from 2007 to 2017; although in three years, usage increased (2008, 2011, and 2014). Urban credit usage trended upward from 2007 to 2017; although in five years, usage decreased (2008, 2009, 2012, 2013, and 2017). Complete yearly breakdowns of rural and urban credit use can be found in Appendix B.

Figure 2.8. Rural and Urban Credit Usage by Firm Location



Source: Audit Office analysis of Department of Revenue data.

Credits Used—Applicants' Locations

We also looked at credit usage by the personal address of the applicant/individual claiming the credit. The total credits in this analysis are approximately $50,000 *less than* the total credits in the firm-location analysis because those credits were earned by four applicants who lived outside Nebraska[19].

The results of our analysis of the rural and urban locations of individual applicants showed a similar trend to the locations of the firms and had the same percentage breakdown as the place of business method. Fifty-five percent were in rural areas and 45% were in urban ones. This suggests that there are not a lot of applicants who have residential locations different from their firm's location.

Applicant address analysis also shows that from 2007 to 2011, more credit went to rural areas (69%) than to urban areas (31%). It further shows that from 2012 to 2017, more credit was provided to urban areas (61%) than to rural areas (39%). Complete yearly breakdowns of rural and urban credit use by applicant address can be found in Appendix B.

[19] Although the participants receiving the credit lived outside of the state, their businesses and their employees were in Nebraska.

Distressed Areas

How much Microenterprise Act benefit has been provided to distressed areas of the state?

Results

In the three years examined for the statutory definition of this metric, 81 of the 620 (13%) approved applications were for firms in locations that were distressed at the time of the application[20]. Those 81 firms received $663,098 in credit.

There is no finding on this metric because there is no standard to compare the program data to in order to judge whether the amount is enough to meet policymakers' expectations.

Discussion/Methodology

In 2018, the Legislature passed LB 936, which defined a distressed area for tax incentive evaluations as "an area of substantial unemployment (ASU) as determined by the Department of Labor pursuant to the Nebraska Workforce Innovation and Opportunity Act." According to the federal Department of Labor Employment and Training Administration, ASUs are defined as contiguous Census tracts that have an unemployment rate of higher than 6.5% and a combined population of at least 10,000 residents.

The Department of Labor updates the list of ASUs every year. Some years have more and larger areas than others. Figure 2.9 shows the counties that had ASUs in the examination years.

Figure 2.9. Counties With at Least One Area of Substantial Unemployment*

2010	Burt	**Douglas**	Gage	**Lancaster**	Madison	Thurston	Wayne	
2012	Burt	Cass	Dakota	Dawson	Dodge	**Douglas**	Gage	Hall
	Lancaster	Nemaha	Richardson	Saunders	Scottsbluff	Thurston	**Washington**	
2014	Buffalo	**Burt**	Dakota	Dawson	**Dodge**	**Douglas**	Johnson	**Lancaster**
	Madison	Nemaha	Richardson	**Sarpy**	Scottsbluff	Thurston	Washington	

Source: Audit Office compilation of information from Nebraska Department of Labor staff and *Nebraska Workforce Trends* publications for January 2012 and January 2014.
*Counties with at least one microenterprise firm receiving credit for an application in that year are in bold.

[20] For most of the lifetime of the Microenterprise Act, applications had to be from businesses that were in "Distressed Areas" as defined by the Act. In 2017 LB 217 removed the definitions of "Distressed Areas" from several incentive acts, including the Microenterprise Act for several reasons, including that it was so broadly defined, that the vast majority of the state was included. We did not use the previous statutory definition in this analysis.

The Office cross-referenced data from the Microenterprise database with Department of Labor determinations of ASUs. Approved applications in those years were examined to determine if businesses were in ASUs. The resulting businesses were further examined to determine the amount of credit they eventually received. If a single firm has more than one applicant (for example, a business that is a partnership between three people), that business has only been counted once for this metric. The results of this analysis are shown in Figure 2.10.

Figure 2.10. Microenterprise Credit in Distressed Areas

	Total Approved Firms	Number of Firms in Areas of Substantial Unemployment	Total Credit for Firms in Areas of Substantial Unemployment
2010	237	14	$106,650
2012	219	40	$308,193
2014	164	27	$248,255
Total	**620**	**81**	**$663,098**

Source: Audit Office analysis of Department of Revenue data and Department of Labor ASU determinations.

Of the three years we reviewed, 2012 had the highest number of firms (40) that applied and received benefits while they were in an ASU—18% of the 219 firms with approved applications that year. Those 40 firms received a little over $300,000. The lowest number of firms and the lowest application year receiving benefits for activity in ASUs were both in 2010. That year, 14 firms, 6% of those approved, received a little over $100,000.

High-tech Sector

Is the Microenterprise Act stimulating high-tech firms in the state?

Results

From 2007 to 2017, 50 (2%) of 2,076 firms receiving credit under the Act met the definition of "high-tech" firm, accounting for nearly $432,000 in benefits. Of the $432,000 in credits, the Computer Systems and Design and Related Systems industry sector (NAICS 5415) received the most credits—$222,000 (51%) by 26 firms.

There is no finding on this metric because there is no standard to compare the program data to in order to judge whether the amount is enough to meet policymakers' expectations.

Discussion/Methodology

The Audit Office used the definition of "high-tech firms" contained in statute and derived from a Center for Economic Studies analysis prepared for the U.S. Census Bureau.[21] It includes industries at the four-digit NAICS level that have a proportion of STEM[22] workers at least five times the average. A list of high-tech NAICS codes can be found in Appendix B.

Similar to the cost per job and the rural areas metrics, the credit amounts used in this metric were obtained from a specialized query of the Microenterprise Tax Incentive database at the Department of Revenue. From the specialized query, the Office utilized pivot tables to parse through and obtain the relevant information.

Of the 15 high-tech industry sectors, firms receiving credit in the Microenterprise program between 2007 and 2017 represented 5 of these sectors, as shown in Figure 2.11.

[21] Neb. Rev. Stat. § 50-1209(4)(d). The definition includes a firm with a location containing any NAICS code defined as "high-tech" by the Department of Labor. Due to the large number of participants in the Act, the Office did not verify their NAICS code designation with the Department of Labor. Instead, the Office used self-reported NAICS codes from their applications.

[22] Science, technology, engineering and math occupations as determined by the Bureau of Labor Statistics.

Figure 2.11. High-tech Firms Receiving Credit through the Act, 2007-2017

NAICS Code*	Description	Number of Firms	Credits Received (%)
5415	Computer Systems Design and Related Services	26	$222,293 (51%)
5413	Architectural, Engineering, and Related Services	18	$154,703 (36%)
5191	Other Information Services	3	$30,000 (7%)
5112/5173	Software Publishers/Wired and Wireless Telecommunications Carriers	3	$24,718 (6%)
	Total	**50**	**$431,714 (100%)**

Source: Audit Office analysis of Department of Revenue data.
* Note: Yearly NAICS code breakdowns by firm would contain too many unreportable amounts to be useful.

The number of unique high-tech firms receiving credit each program year varied, ranging from 5 in 2011 to 14 in 2016, as shown in Figure 2.12.

Figure 2.12. Unique High-tech Firms

Year	Number of Unique High-tech Firms*	Credits Earned
2007	7	$47,521
2008	8	$22,313
2009 2010	6**	$32,816
2011	5	$39,404
2012	9	$60,571
2013 2014	6**	$51,010
2015	6	$25,835
2016	14	$90,296
2017	10	$61,948

Source: Audit Office analysis of Department of Revenue data.
* Note: Summing the yearly number of High-tech firms in this table does not equal the amount in the Results section because some companies received benefits in more than one year.
**Note: Reporting for the years 2009-2010 and 2013-2014 are combined to protect taxpayer confidentiality.

Renewable Energy Sector

Is the Microenterprise Act stimulating renewable energy firms in the state?

Results

From 2007 to 2017, 393 (19%) of 2,076 firms receiving credit under the Act met the definition of “renewable energy” firm, accounting for nearly $2.6 million in benefits. Of the nearly $2.6 million in credits paid to those firms, $2.3 million (88%) went to agriculture-related firms.

There is no finding on this metric because there is no standard to compare the program data to in order to judge whether the amount is enough to meet policymakers’ expectations.

Discussion/Methodology

The Audit Office used the definition of “renewable energy firms” contained in statute and derived from the Bureau of Labor Statistics (BLS) Green Goods and Services Survey. The BLS definition includes firms that not only produce energy from renewable sources, but also those that support renewable energy production firms. This includes businesses such as farms that produce biomass inputs, wind turbine and turbine generator manufacturing, and environmental consulting services. A list of renewable energy NAICS codes can be found in Appendix B.

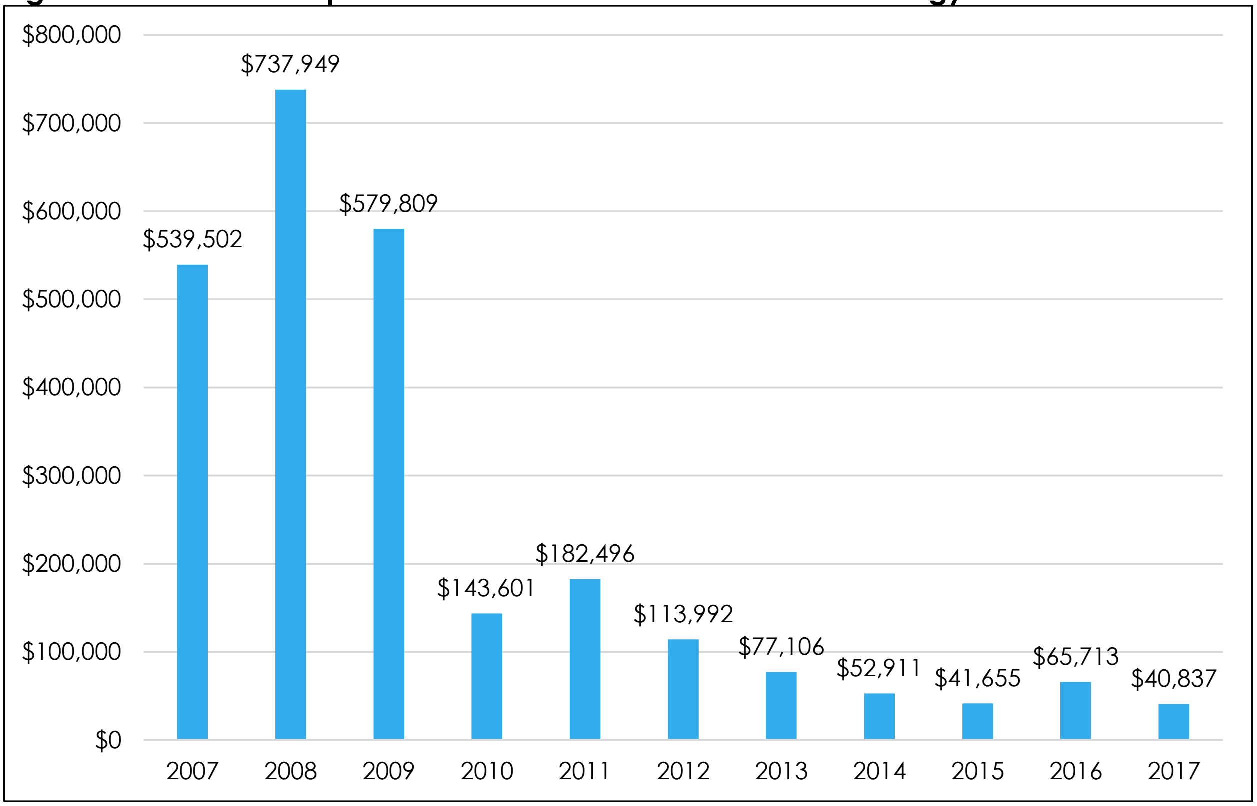
Not all firms in these industries are producing outputs related to renewable energy production at all times (e.g. the BLS definition includes corn farming, as it is potentially used for renewable energy production). The results found in this analysis should be considered the *maximum potential* renewable energy impact, as the definition utilized is broad.

Similar to the cost per job, rural areas, and high-tech metrics, the credit amounts used this metric were obtained from a specialized query of the Microenterprise Tax Incentive database at the Department of Revenue. From the specialized query, the Office utilized pivot tables to parse through and obtain the relevant information.

Agriculture-related Sectors

From 2007 to 2017, eighty-eight percent of the $2.6 million in credits issued to renewable energy firms went to agriculture-related firms. As seen in Figure 2.13, credits to renewable energy firms peaked in 2008 at $737,949 and dropped precipitously after 2009. This drop in benefits to renewable energy firms was due to a change in the Act in 2008, which limited agriculture-related firms' ability to apply for and receive the credit.[23]

Figure 2.13. Microenterprise Tax Credits Issued to Renewable Energy Firms

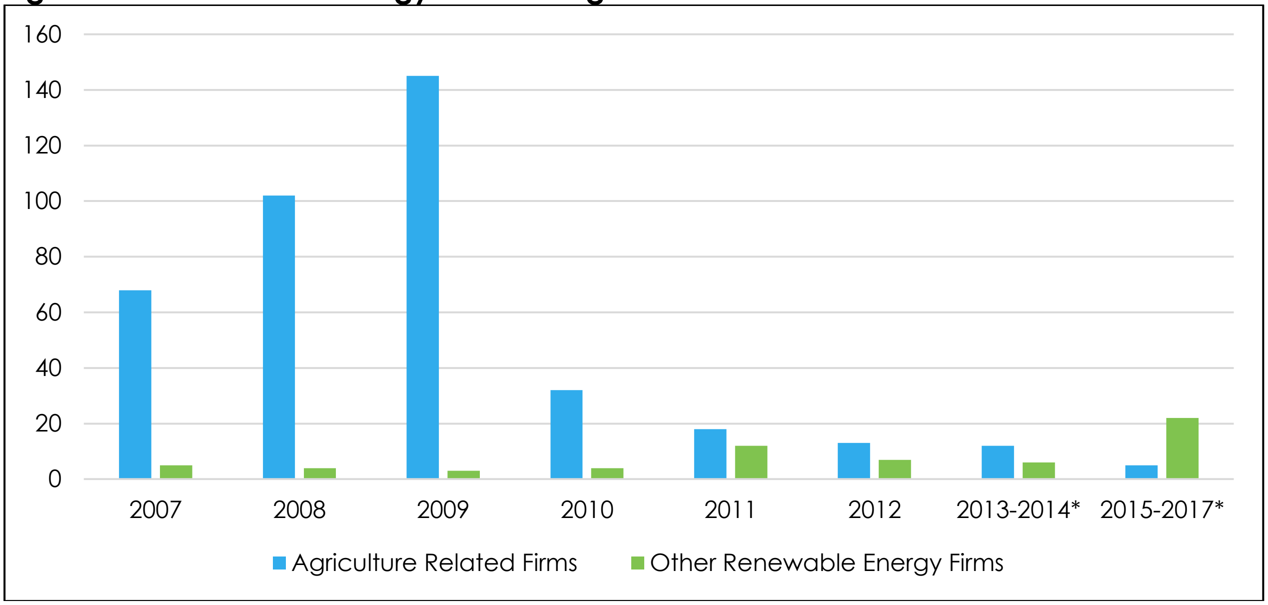


Source: Audit Office compilation of Department of Revenue data.

Agriculture-related firms also fell as a portion of renewable energy firms receiving benefits after LB 177 (2008). As shown in Figure 2.14, agriculture-related firms accounted for 98% of renewable energy firms in 2009, but accounted for 19% between 2015 and 2017. Three-hundred fifteen agriculture-related firms received credit before 2009, while there was no net-worth limitation, and they accounted for 69% of all renewable energy firms from 2007 to 2017. Detailed results can be found in Appendix B.

[23] LB 177 (2008) introduced a net-worth limitation of $250,000 for most agriculture-related firms applying for benefits. This limitation was raised to $350,000 in 2009 (LB 531) and $500,000 in 2015 (LB 246).

Figure 2.14 Renewable Energy Benefits: Agriculture Sector versus All Other Sectors



Source: Audit Office analysis of Department of Revenue data.
*Data was combined to protect taxpayer confidentiality.

Renewable Energy Sectors

Of the 61 renewable energy industry sectors, firms participating in the Microenterprise program between 2007 and 2017 were represented in 10, as shown in Figure 2.15. As noted, agriculture-related sectors received the most benefits under the Microenterprise Tax Credit Act, totaling nearly $2.3 million. The next highest-represented sector was landscaping services, totaling just over $183,000.

Figure 2.15. Renewable Energy Sectors Receiving Credit through the Act, 2007-2017

NAICS Code	Description	Number of Firms	Credit Received (%)
110000	All agriculture	346	$2,270,662 (88%)
561730	Landscaping services	32	$183,303 (7%)
541330	Engineering	3	$30,000 (1%)
541690	Other scientific and technical consulting services	3	$20,755 (1%)
237990	Other heavy and civil engineering construction	3	$20,350 (1%)
541370	Surveying and mapping services	6*	$50,501 (2%)
237210	Land subdivision		
541620	Environmental consulting services		
237130	Power and communication line and related structures construction		
333511	Industrial mold manufacturing		
	Total	**393**	**$2,575,571**

Source: Audit Office compilation of Department of Revenue data.
*These industries were combined to protect taxpayer confidentiality.

Administrative Cost

How much do state agencies spend to administer and promote the Microenterprise Act?

Results

Using data for 2016 to 2018 provided by the Department of Revenue and the Department of Economic Development, costs for administering and promoting *all* tax incentive programs was $5.2 million.

There is no finding on this metric because there is no standard to compare the program data to in order to judge whether the amount meets policymakers' expectations.

Discussion/Methodology

The Microenterprise Act, which the Department of Revenue administers and the Department of Economic Development promotes, contains no standard for its cost of administration and promotion. Neither agency tracks their expenditures specific to the Act because administration and promotion of the Act are done in conjunction with administration and promotion of other tax incentive programs.

Figure 2.16 shows each Department's costs for all tax incentive programs for the years 2016 and 2017. Note that the 2018 figure is only the Department of Revenue's costs for the first half of the year.

Figure 2.16. Cost to Administer and Promote All Tax Incentives

	2016	2017	2018*	Total
Revenue Cost	$1,631,834	$1,624,288	$776,984	$4,033,106
DED Cost	$642,000	$571,000	N/A	$1,213,000
Total	**$2,273,834**	**$2,195,288**	**$776,984**	**$5,246,106**

Source: Figures provided by Departments of Revenue and Economic Development.
*Through June 2018.

Costs to the Department of Revenue are for employees that work on tax incentive programs. This includes those who work solely on incentive programs as well as time working on incentives for those who split their time between incentives and other duties.

Costs to the Department of Economic Development are for promotional efforts for tax incentive programs. This does not include other business recruitment efforts.

Fiscal Protections

What are the fiscal protections in the Act?

Results

The Microenterprise Tax Credit Act has fiscal protections in place, including a cap on yearly benefits, control of the timing of credit redemptions, and requiring advance notice of participation.

> **Finding:** Because the Microenterprise Tax Credit Act contains several important fiscal protections recommended by The Pew Charitable Trusts, the program is at low risk for exceeding expected costs.

Discussion

A 2015 report by The Pew Charitable Trusts noted the difficulty placed on states when an unexpected decrease in revenue occurs and stated that tax incentive programs can contribute to such situations if fiscal controls are not in place. In the report, Pew provided several recommendations for policymakers that can help mitigate the potential for decreased revenue due to tax incentive programs.

The Microenterprise Act meets six of the nine recommendations the Pew report makes, including a cap on yearly benefits, controlling the timing of incentive redemptions, requiring advance notice of participation, timely sharing of information across relevant agencies, linking incentives to company performance, and monitoring program costs.

A few recommendations from the Pew report are not met, including a regular forecast of the program's cost (however, the program is capped), requiring lawmakers to pay for the program through budget appropriations, and ensuring participants cannot redeem more in benefits than they owe in taxes (making the credit nonrefundable).

Figure 2.17 describes all of the Pew recommendations and the Audit Office's judgment about each in relation to the Microenterprise Act.

Figure 2.17. 2015 Pew Report Fiscal Protection Recommendations

Pew Report Recommendations	Microenterprise Act	Audit Office Remarks
Gathering and sharing high-quality data on the costs of incentives by:		
Regularly forecasting the cost	**N/A**	The Act is capped at $2 million per year
Monitoring costs and commitments of large and high-risk programs	**Yes**	Although the Microenterprise Act is not a large program, the Department tracks costs and commitments and annual reports are produced
Sharing timely information on incentives across relevant agencies	**Yes**	Yearly reports, annual legislative hearing on tax incentive reports, legislative evaluations
Designing incentives in ways that reduce fiscal risk, including:		
Capping how much programs can cost each year	**Yes**	The Act is capped at $2 million per year
Controlling the timing of incentive redemptions	**Yes**	Firms have two years to earn and use credits
Requiring lawmakers to pay for incentives through budget appropriations	**No**	The program is not paid for through the appropriations process
Restricting the ability of companies to redeem more in credits than they owe in taxes	**No**	Microenterprise credits are fully refundable
Linking incentives to company performance	**Yes**	Firms must increase compensation or qualified investment
Requiring businesses to provide advance notice of program participation	**Yes**	Firms must apply and be approved 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.

APPENDIX A: Section I Additional Data

Supports Figures 1.2 and 1.3

Figure A.1. Number of Individuals and Firms Receiving Credit and Total Credit Amounts Used

Year	Individuals	Firms	Credits Used
2007	222	208	$1,474,835
2008	301	288	$1,928,942
2009	461	445	$1,664,749
2010	234	226	$1,066,448
2011	293	274	$1,586,392
2012	250	239	$1,355,015
2013	209	198	$1,104,864
2014	243	228	$1,307,311
2015	221	201	$1,168,695
2016	191	175	$1,100,559
2017	150	141	$768,831
Total*	**2,184**	**2,076**	**$14,526,641**

Source: Audit Office analysis of Department of Revenue data.
*The numbers of individuals and entities receiving credit in individual years do not sum to the totals shown because many received credit in multiple years.

Supports Figure 1.4

Figure A.2. Approved Applications by Type of Firm

Industry Sector NAICS Code	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
11	118	186	348	31	51	26	19	15	16	5	9	**824**
21						1						**1**
23	10	12	29	37	31	35	33	27	23	20	15	**272**
31-33	6	4	8	9	4	8	8	9	7	4	3	**70**
42	4		8	6	4	4	9	6	4	3	1	**49**
44-45	9	7	17	31	23	21	22	25	18	19	11	**203**
48-49	4	3	8	9	3	3	5	3	3	3	2	**46**
51	1	1	2	2	1	3	1	2	2	1		**16**
52	13	4	11	11	11	10	24	10	9	8	10	**121**
53	4	1	2	10	11	17	4	16	2	7	2	**76**
54	19	10	23	35	24	37	37	36	29	24	14	**288**
56	6	1	6	15	17	19	12	11	5	6	6	**104**
61	2		1	1	1	1	1	1	2	2	1	**13**
62	21	3	11	18	25	12	21	21	19	17	15	**183**
71	2		3	2	1	7	3	5	7	2	3	**35**
72	4	3	3	7	8	7	6	7	10	4	8	**67**
81	9	5	18	14	22	12	14	23	8	13	6	**144**
Total	**232**	**240**	**498**	**238**	**237**	**223**	**219**	**217**	**164**	**138**	**106**	**2512**

Source: Audit Office analysis of Department of Revenue data.

Supports Figures 1.6 and 1.7

Figure A.3. Reportable County Distribution of Microenterprise Tax Credits, 2007-2017

County*	Individuals	Amount	Population**	Est. Per Capita Benefit
Douglas	559	$4,062,698	550,064	$7.39
Lancaster	162	$1,136,859	306,468	$3.71
Platte	120	$700,423	32,847	$21.32
Sarpy	100	$679,363	175,692	$3.87
Valley	94	$571,649	4174	$136.95
Otoe	76	$430,856	15,984	$26.96
Cuming	57	$426,699	9125	$46.76
Greely	59	$393,648	2429	$162.06
Dodge	56	$376,805	36,706	$10.27
Pierce	46	$329,995	7208	$45.78
Boone	55	$326,285	5315	$61.39
Madison	36	$244,101	35,039	$6.97
Colfax	49	$238,534	10,520	$22.67
Lincoln	35	$226,140	35,656	$6.34
Custer	30	$208,848	10,806	$19.33
Hamilton	29	$208,333	9,190	$22.67
Polk	40	$205,976	5,202	$39.60
Antelope	26	$195,049	6,414	$30.41
Cass	27	$180,174	25,512	$7.06
Washington	20	$171,162	20,248	$8.45
Garfield	27	$155,014	2,028	$76.44
Butler	22	$147,414	8,115	$18.17
York	21	$145,235	13,806	$10.52
Burt	22	$143,379	6,585	$21.77
Seward	24	$142,126	17,110	$8.31
Adams	21	$142,100	31,587	$4.50
Buffalo	25	$140,782	48,863	$2.88
Holt	18	$136,397	10,313	$13.23
Logan	20	$124,592	777	$160.35
Sherman	19	$121,283	3,091	$39.24
Chase	17	$120,131	3,956	$30.37
Cedar	16	$109,169	8,564	$12.75
Saunders	12	$98,998	21,016	$4.71
Knox	14	$96,769	8,543	$11.33
Fillmore	12	$94,294	5,619	$16.78
Wheeler	11	$80,031	750	$106.71
Saline	10	$78,230	14,282	$5.48
Johnson	16	$77,473	5,173	$14.98
Hall	13	$77,321	61,680	$1.25
Stanton	15	$72,017	5,937	$12.13
Nance	15	$66,690	3,595	$18.55
Merrick	10	$55,374	7,787	$7.11

*Counties with fewer than 10 individuals receiving credit: Blaine, Box Butte, Brown, Cherry, Clay, Dakota, Dawes, Dawson, Duel, Dixon, Franklin, Frontier, Furnas, Gage, Garden, Gosper, Grant, Harlan, Howard, Jefferson, Kearney, Keith, Loup, McPherson, Morrill, Nemaha, Nuckolls, Perkins, Phelps, Red Willow, Richardson, Scotts Bluff, Sheridan, Thayer, Thomas, Thurston, and Wayne.

**Data comes from the 2016-2017 Nebraska Blue Book, which uses 2015 U.S. Census estimates.

Supports Figure 1.7

Figure A.4. Reportable County Distribution of Microenterprise Tax Credits, 2010-2017

County	Individuals	Amount	Population*	Est. Per Capita Benefit	Per cap as % of 2007-2017
DOUGLAS	469	$ 3,406,231	550064	$ 6.19	84%
LANCASTER	139	$ 983,322	306468	$ 3.21	86%
SARPY	81	$ 570,130	175692	$ 3.25	84%
OTOE	47	$ 271,656	15984	$ 17.00	63%
PLATTE	40	$ 263,857	32847	$ 8.03	38%
DODGE	33	$ 228,587	36706	$ 6.23	61%
VALLEY	36	$ 222,405	4174	$ 53.28	39%
LINCOLN	32	$ 203,590	35656	$ 5.71	90%
BOONE	29	$ 199,892	5315	$ 37.61	61%
CUMING	21	$ 172,830	9125	$ 18.94	41%
GREELEY	20	$ 161,105	2429	$ 66.33	41%
MADISON	20	$ 157,478	35039	$ 4.49	65%
CUSTER	21	$ 154,351	10806	$ 14.28	74%
HAMILTON	21	$ 145,011	9190	$ 15.78	70%
CASS	18	$ 133,148	25512	$ 5.22	74%
ANTELOPE	18	$ 130,835	6414	$ 20.40	67%
WASHINGTON	14	$ 121,295	20248	$ 5.99	71%
HOLT	14	$ 118,624	10313	$ 11.50	87%
BUFFALO	19	$ 112,361	48863	$ 2.30	80%
PIERCE	16	$ 105,102	7208	$ 14.58	32%
LOGAN	17	$ 102,889	777	$ 132.42	83%
SEWARD	20	$ 100,086	17110	$ 5.85	70%
COLFAX	20	$ 93,308	10520	$ 8.87	39%
POLK	14	$ 77,907	5202	$ 14.98	38%
CHASE	10	$ 74,169	3956	$ 18.75	62%
BUTLER	11	$ 72,275	8115	$ 8.91	49%
GARFIELD	10	$ 66,005	2028	$ 32.55	43%
JOHNSON	11	$ 64,586	5173	$ 12.49	83%
SHERMAN	10	$ 56,286	3091	$ 18.21	46%

Source: Audit Office analysis of Department of Revenue data.
*Data comes from the 2016-2017 Nebraska Blue Book, which uses 2015 U.S. Census estimates.

Supports Figure 1.8

Figure A.5. Number of Approved Applications by Zip Codes in Douglas County, 2006-2016

Zip Code	Approved Applications	Zip Code	Approved Applications	Zip Code	Approved Applications
68116	80	68132	23	68105	6
68130	57	68137	23	68112	6
68135	51	68134	22	68108	4
68022	50	68104	18	68069	3
68164	45	68127	17	68122	3
68154	43	68118	15	68010	2
68144	35	68102	12	68111	2
68124	29	68117	9	68152	2
68007	26	68131	9	68107	1
68114	25	68142	8	68110	1
68106	23	68064	7	68139	1

Source: Audit Office analysis of Department of Revenue data.

APPENDIX B: Section II Additional Data

Supports Jobs Metric, Figure 2.1

Figure B.1. Change in participants' Number of Employees Four Years After Base Years

Firms	2010		2012		2014		Total	
Increase in Employees (More W-2s)	63	27%	82	37%	77	47%	222	36%
Decrease in Employees (Fewer W-2s)	42	18%	38	17%	27	16%	107	17%
No Change	132	56%	99	45%	60	37%	291	47%
Total Firms[1]	**237**	**100%**	**219**	**100%**	**164**	**100%**	**620**	**100%**

Source: Audit Office analysis of Department of Revenue data.
Note: Percentages may not sum to 100 due to rounding.

Supports Wages Metric, Figure 2.6

Figure B.2. Entities with Increase or Decrease in wages, Base Year to 4 Years After

	2010		2012		2014		Total	
Increased Total Wages	86	36%	99	45%	89	54%	274	44%
Reduced Total Wages	37	16%	38	17%	27	17%	102	16%
No Change	114	48%	82	37%	48	29%	244	39%
Total Firms	**237**	**100%**	**219**	**100%**	**164**	**100%**	**620**	**100%**

Source: Audit Office analysis of Department of Revenue data.

[1] Percentages may not sum to 100 due to rounding.

Supports Rural Metric, Figure 2.8

Figure B.3. RURAL: Credit Usage by Firm Location

Year	Rural Credit Usage (%)	Urban Credit Usage (%)	Combined Credit Usage
2007	$920,343 (62%)	$554,492 (38%)	$1,474,835
2008	$1,617,821 (84%)	$311,121 (16%)	$1,928,942
2009	$1,414,615 (85%)	$250,134 (15%)	$1,664,749
2010	$612,550 (57%)	$453,898 (43%)	$1,066,448
2011	$830,611 (52%)	$755,781 (48%)	$1,586,392
2007-2011 Total	**$5,395,940 (70%)**	**$2,325,426 (30%)**	**$7,721,366**
2012	$625,506 (46%)	$729,509 (54%)	$1,355,015
2013	$508,079 (46%)	$596,785 (54%)	$1,104,864
2014	$542,297 (41%)	$765,014 (59%)	$1,307,311
2015	$359,389 (31%)	$809,406 (69%)	$1,168,685
2016	$315,882 (29%)	$784,677 (71%)	$1,100,559
2017	$270,728 (35%)	$498,103 (65%)	$768,831
2012-2017 Total	**$2,621,881 (39%)**	**$4,183,494 (61%)**	**$6,805,265**
Total	**$8,017,721 (55%)**	**$6,508,920 (45%)**	**$14,526,641**

Source: Audit Office analysis of Department of Revenue data.

Supports Rural Metric, Applicant Location Credits

Figure B.4. Rural: Credit Usage by Individual Participant Location

Year	Rural Credit Usage (%)	Urban Credit Usage (%)	Combined Credit Usage
2007	$898,380 (61%)	$566,455 (39%)	$1,464,835
2008	$1,591,867 (83%)	$337,075 (17%)	$1,928,942
2009	$1,421,004 (85%)	$241,150 (15%)	$1,662,154
2010	$604,917 (57%)	$461,531 (43%)	$1,066,448
2011	$806,932 (51%)	$779,460 (49%)	$1,586,392
2007-2011 Total	**$5,323,100 (69%)**	**$2,385,671 (31%)**	**$7,708,771**
2012	$607,397 (45%)	$747,618 (55%)	$1,355,015
2013	$499,330 (46%)	$583,948 (54%)	$1,083,278
2014	$521,862 (40%)	$785,150 (60%)	$1,307,012
2015	$371,030 (32%)	$796,886 (68%)	$1,167,916
2016	$333,056 (31%)	$753,434 (69%)	$1,086,490
2017	$275,018 (36%)	$493,097 (64%)	$768,115
2012-2017 Total	**$2,607,693 (39%)**	**$4,160,133 (61%)**	**$6,767,826**
Total	**$7,930,793 (55%)**	**$6,545,804 (45%)**	**$14,476,597**

Source: Audit Office analysis of Department of Revenue data.

Supports High-tech Metric

Figure B.5. High-tech NAICS Codes, as Defined by the Legislature

NAICS Code	Sector Description
2111	Oil and Gas Extraction
3254	Pharmaceutical and Medicine Manufacturing
3341	Computer and Peripheral Equipment Manufacturing
3342	Communications Equipment Manufacturing
3344	Semiconductor and Other Electronic Component Manufacturing
3345	Navigational, Measuring, Electromedical, and Control Instruments Manufacturing
3364	Aerospace Product and Parts Manufacturing
5112	Software Publishers
5173	Wired Telecommunications Carriers
5179	Other Telecommunications
5182	Data Processing, Hosting, and Related Services
5191	Other Information Services
5413	Architectural, Engineering, and Related Services
5415	Computer Systems Design and Related Services
5417	Scientific Research and Development Services

Source: Neb. Rev. Stat. § 50-1209.

Supports Renewable Energy Metric, Figure 2.15

Figure B.6. Renewable Energy NAICS Codes, as Defined by the Legislature

NAICS Code	Sector Description
111110	Soybean farming
111120	Oilseed, except soybean, farming
111130	Dry pea and bean farming
111140	Wheat farming
111150	Corn farming
111160	Rice farming
111191	Oilseed and grain combination farming
111199	All other grain farming
111211	Potato farming
111219	Other vegetable and melon farming
111310	Orange groves
111320	Citrus, except orange, groves
111331	Apple orchards
111332	Grape vineyards
111333	Strawberry farming
111334	Berry, except strawberry, farming
111335	Tree nut farming
111336	Fruit and tree nut combination farming
111339	Other noncitrus fruit farming
111411	Mushroom production
111419	Other food crops grown under cover
111930	Sugarcane farming
111991	Sugar beet farming
113310	Logging
221111	Hydroelectric power generation
221114	Solar electric power generation
221115	Wind electric power generation
221116	Geothermal electric power generation
221117	Biomass electric power generation
221118	Other electric power generation
221330	Steam and air-conditioning supply
237130	Power and communication system construction
237210	Land subdivision
237990	Other heavy construction
325193	Ethyl alcohol manufacturing
325199	All other basic organic chemical mfg.
331512	Steel investment foundries

NAICS Code	Sector Description
331513	Steel foundries, except investment
331523	Nonferrous metal die-casting foundries
331524	Aluminum foundries, except die-casting
331529	Other nonferrous foundries, exc. Die-casting
332111	Iron and steel forging
332112	Nonferrous forging
333414	Heating equipment, except warm air furnaces
333415	AC, refrigeration, and forced air heating
333511	Industrial mold manufacturing
333611	Turbine and turbine generator set units mfg.
333612	Speed changer, drive, and gear manufacturing
333613	Mechanical power transmission equipment mfg.
334519	Other measuring and controlling device mfg.
485510	Charter bus industry
541330	Engineering services
541360	Geophysical surveying and mapping services
541370	Other surveying and mapping services
541620	Environmental consulting services
541690	Other technical consulting services
541713	Research and Development in Nanotechnology
541714	Research and Development on Biotechnology (Except Nanobiotechnology)
541715	Research and Development in the Physical, Engineering, and Life Sciences (Except Nanotechnology and Biotechnology)
561730	Landscaping services
562213	Solid waste combustors and incinerators

Source: Neb. Rev. Stat. § 50-1209.

Supports Renewable Energy Metric, Figure 2.15

Figure B.7. Renewable Energy Firms Receiving Credit from the Act

<table>
<tr><th>Year</th><th>Agriculture-related Firms (%)</th><th>Other Renewable Energy Firms (%)</th><th>Total Renewable Energy Firms</th></tr>
<tr><td>2007</td><td>68 (93%)</td><td>5 (7%)</td><td>73</td></tr>
<tr><td>2008</td><td>102 (96%)</td><td>4 (4%)</td><td>106</td></tr>
<tr><td>2009</td><td>145 (98%)</td><td>3 (2%)</td><td>148</td></tr>
<tr><td>2010</td><td>32 (89%)</td><td>4 (11%)</td><td>36</td></tr>
<tr><td>2011</td><td>18 (60%)</td><td>12 (40%)</td><td>30</td></tr>
<tr><td>2012</td><td>13 (65%)</td><td>7 (35%)</td><td>20</td></tr>
<tr><td>2013</td><td rowspan="2">12** (67%)</td><td rowspan="2">6* (33%)</td><td rowspan="2">18</td></tr>
<tr><td>2014</td></tr>
<tr><td>2015</td><td rowspan="3">5* (19%)</td><td rowspan="3">22*** (81%)</td><td rowspan="3">27</td></tr>
<tr><td>2016</td></tr>
<tr><td>2017</td></tr>
<tr><td>Total</td><td>346 (88%)</td><td>47 (12%)</td><td>393</td></tr>
</table>

Source: Audit Office compilation of Department of Revenue data.

*These years were combined for the particular statistic to protect taxpayer confidentiality.

**2013 had 7 agriculture-related firms and 2014 had 5.

***2015 had 6 other renewable energy firms, 2016 had 10, and 2017 had 6.

III. Agency Response and Fiscal Analyst's Opinion

NEBRASKA

Good Life. Great Service.

DEPARTMENT OF REVENUE

November 1, 2018

Sen. John Kuehn
State Capitol, Room #2000
P.O. Box 94604
Lincoln, NE 68509

Senator Kuehn and members of the Performance Audit Committee,

I am in receipt of the Legislative Audit Office Draft Report, "The Nebraska Advantage Microenterprise Tax Credit Act: Performance on Selected Metrics," which was provided to the Department of Revenue (Department) on October 3, 2018. The Department does not have any comments on the findings stated in the draft report. Thank you for the time and effort expended by the Legislative Audit Office in conducting this audit. We enjoyed working with you and the members of the audit team.

Respectfully Submitted,

Tony Fulton

Tony Fulton
Tax Commissioner

Tony Fulton, Tax Commissioner
revenue.nebraska.gov

PO Box 94818
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402-471-5729

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's response letter stated that they had no comments on the report's findings.

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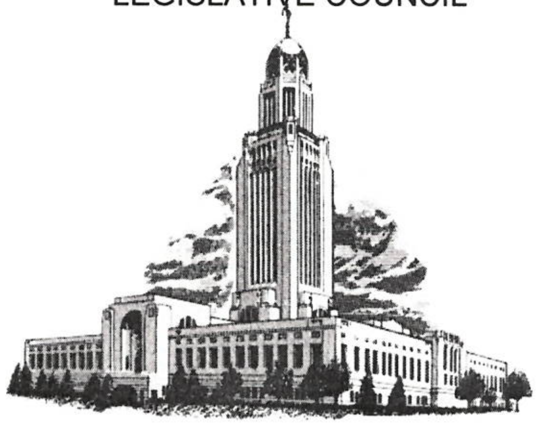
State of Nebraska

LEGISLATIVE COUNCIL



www.nebraskalegislature.gov

Legislative Fiscal Office
PO Box 94604, State Capitol
Lincoln, NE 68509-4604

October 19, 2018

Martha Carter
Legislative Auditor
Performance Audit
11th Floor, State Capitol
Lincoln, NE 68509

Dear Martha;

You have asked the Fiscal Office to review the draft report "The 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,

Tom Bergquist

Tom Bergquist
Legislative Fiscal Analyst