

Nebraska Advantage Research and Development Act: Performance on Selected Metrics



The Legislative Audit Office is a nonpartisan division of the Legislature, directed by the Performance Audit Committee. The Committee selects topics for the Office to audit, details the scope of such audits, and makes recommendations as to how the Legislature should proceed after the Office completes its report.

Nebraska’s Research and Development Tax Incentive Program

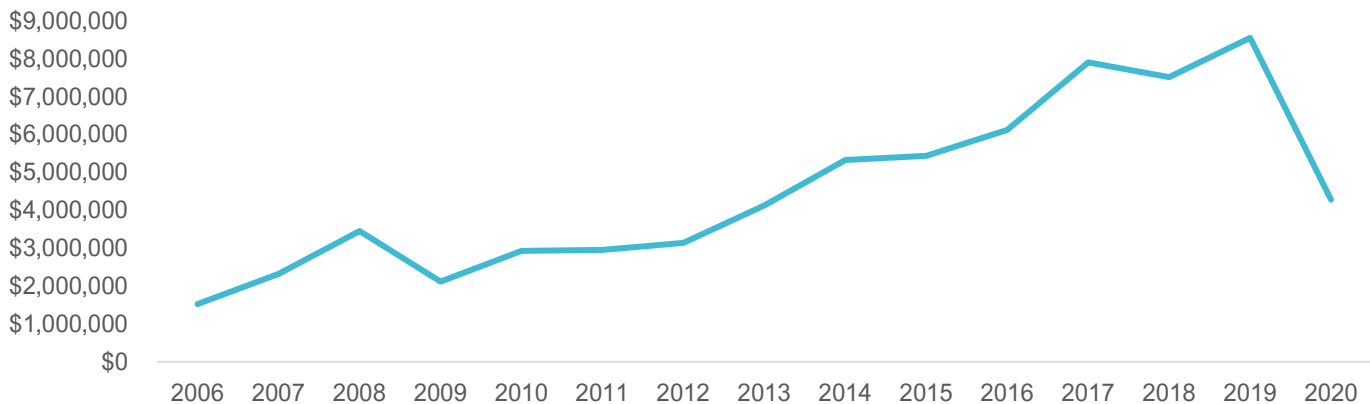
The Nebraska Advantage Research and Development (R&D) Act tax incentive program was created by the Legislature in 2005. The Nebraska R&D program is tied to the federal Research and Experimentation credit program, which provides tax credits for a percentage of a company’s increase in qualifying expenditures. Companies that have qualified expenses under the federal requirements do not apply to the Nebraska program, instead they submit a claim form with their Nebraska tax return. Under the Nebraska program, companies may claim 15% of the federal credit for qualifying activity that took place in Nebraska or 35% if the activity occurred on the campus of a college or university.

By law, the Nebraska R&D program will sunset December 31, 2022, after which no first-year claims for subsequent tax years will be allowed.

Program Participation

For research activity between 2006 and 2020, 460 companies were awarded \$72.3 million in tax credits under the R&D program. Companies had used over \$67.7 million in credits for activity through the end of the 2020 tax year. Between 2010 and 2020, 19 companies qualified for the enhanced credit, receiving a total of about \$581,000 credits. Enhanced credits amount to less than 1% of all credits awarded for activity from 2010 to 2020.

The amount of R&D credits used by companies hit a program high in 2019.



Source for all figures: Audit Office analysis of Department of Revenue data.

Report Finding

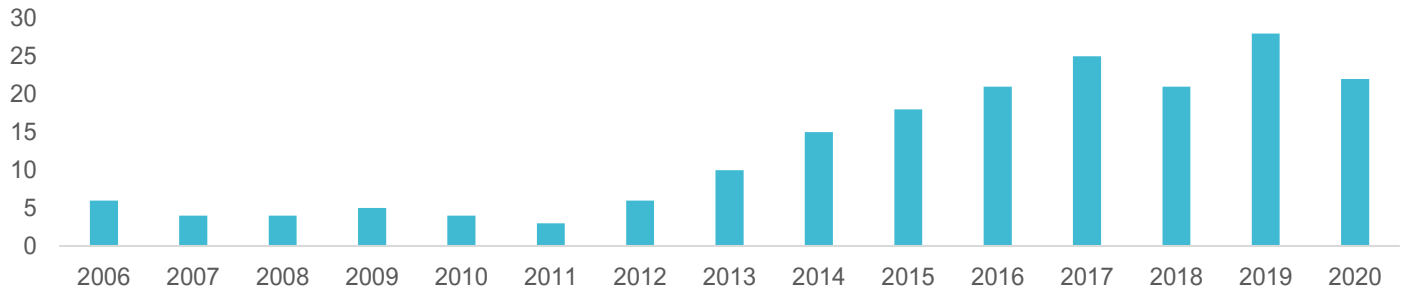
Nebraska’s R&D program does not contain an annual cap on the maximum amount of credits that can be awarded. The Legislature estimated that the Act would cost somewhere between \$2 million and \$5 million per year. Since 2016, however, the amount of R&D program credits used each year has not been *below* \$5 million.

Committee Recommendation

If the Legislature is concerned with the program exceeding expected costs, it should consider adding more stringent fiscal protections to the Act.

Out of 460 companies that were awarded R&D credits, we identified 69 that met the statutory definition of a company that was new to the state. These 69 companies were awarded \$2.8 million in credits.

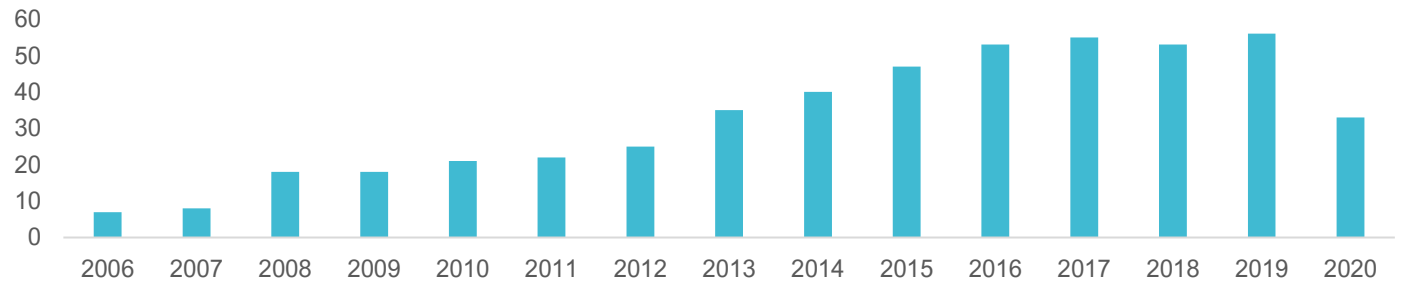
The number of R&D program participants that were new to Nebraska was highest in 2019.



Defining a “sustained” company as one that had activity in the state five years or more after their first year for which they earned credits, we were able to look at 341 companies who claimed the credits for activity beginning in 2016 or earlier. Of those, 89% were considered sustained companies.

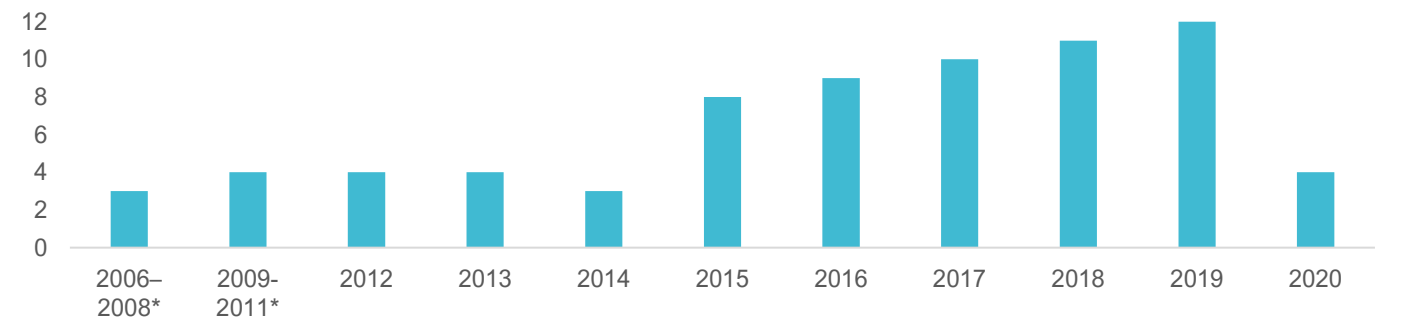
We identified 109 companies, or 24% of Nebraska R&D program participants, from the high-tech sector. From 2006 to 2020, these companies were awarded a total of \$14.8 million in program credits.

The number of high-tech companies with qualified R&D activity generally increased each year until 2020.



We identified 19 companies, or 4% of Nebraska R&D program participants, from the renewable energy sector. From 2006 to 2020, these companies were awarded \$4.2 million in program credits.

The number of renewable energy companies awarded R&D credits rose sharply in 2015 and continued to increase each year until 2020.



*Combined to protect taxpayer confidentiality.

Additional Metrics Reviewed in Report

- Competitiveness
- Private R&D Spending
- Compliance Cost
- Additional Public Funding
- Administrative Cost