

FARM Library

Financial and Risk Management Database

Improving farm management skills one topic at a time

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Nebraska Microenterprise Tax Credit

The Nebraska Microenterprise Tax Credit has been around since 2014 but was revamped in 2021 to be a little more generous. The refundable credit is given to individuals operating small businesses who demonstrate growth in their business. There is a maximum of \$2 million per year (plus any unclaimed credit from previous years) available for the program and \$20,000 available per individual or business.

Eligibility Requirements:

- You must be actively involved in the operation. This means you must have personal involvement in daily management. If the business is considered passive for federal tax purposes, it is considered not actively engaged for this credit. In general, this means that if your income is subject to employment taxes, it is definitely active. If your income is rental in nature, it is passive. There are many variations in between that may be classified either way, so you may need to contact your tax professional if you have questions.
- You must employ five or fewer full-time equivalent (FTE) employees. This essentially means that your employees must work less than 10,400 hours collectively. You may have 10 employees that only work 10,000 hours a year and still be considered to have less than five FTE. You do not have to have any employees to qualify for the credit.
- Farm and livestock operations must have a net worth of less than \$500,000 to qualify. A balance sheet provided by a professional (banker, accountant, etc.) must be submitted with your application to prove this. There are a few enterprises that are exempt from this, such as aquaculture, agricultural tourism, or producing fruit, herbs, vegetables, etc.
- Employers must use the E-Verify system to report Nebraska employees hired after the date of application to verify they are legally able to work in Nebraska.

The credit is based off 20% of the increase in investment made by the business in the following areas: Depreciable assets purchases, repairs and maintenance, advertising, legal and professional fees, net leases, employee compensation, and employer health insurance. The increase is calculated by taking the difference between two consecutive years investments, compared to a base year. For example, if 2020 was your base year and you spent \$50,000 in capital purchases, in 2021 you spent \$75,000, and in 2022 you spent \$80,000, your increase in investment in year one would be \$25,000 and in year two, \$30,000. The total increase in investment would be \$55,000 and the credit would be 20% of that, or \$11,000.

Applications are considered on a first come-first serve basis each year. Applications received after November 1st are considered received as of the first day of the following year. Additional

information and the application can be found on the Nebraska Department of Revenue website at <https://revenue.nebraska.gov/incentives/microenterprise>.