WISCONSIN STATE LEGISLATURE COMMITTEE HEARING RECORDS

2003-04

(session year)

Assembly

(Assembly, Senate or Joint)

Committee on Insurance (AC-In)

File Naming Example:

Record of Comm. Proceedings ... RCP

- 05hr_AC-Ed_RCP_pt01a
- 05hr_AC-Ed_RCP_pt01b
- 05hr_AC-Ed_RCP_pt02

COMMITTEE NOTICES ...

- Committee Hearings ... CH (Public Hearing Announcements)
- **

- Committee Reports ... CR
- **

- Executive Sessions ... ES
- **

- Record of Comm. Proceedings ... RCP
- **

INFORMATION COLLECTED BY COMMITTEE CLERK FOR AND AGAINST PROPOSAL

- Appointments ... Appt
- **

Name:

- Clearinghouse Rules ... CRule
- **

- Hearing Records ... HR (bills and resolutions)
- **03hr_ab0538_AC-In_pt01**

- Miscellaneous ... Misc
- **

Nischke, Ann

From: Rosenak, Mary Jan **Sent:** Fri 9/19/2003 12:46 PM
To: Nischke, Ann
Cc:
Subject: FW: Kanavas/Nischke - Co-sponsorship of companion bills LRB 2338/LRB 2642 and LRB 3266/LRB 3325 - Capital Formation
Attachments: 03-32661.pdf(47KB) 03-23381.pdf(34KB)

-----Original Message-----
From: Shepherd, Jeremey
Sent: Friday, September 19, 2003 12:44 PM
To: Rosenak, Mary Jan
Subject: Kanavas/Nischke - Co-sponsorship of companion bills LRB 2338/LRB 2642 and LRB 3266/LRB 3325 - Capital Formation

Does this look ok???

*****SHORT DEADLINE NOTICE******

Please call Senator Kanavas' office at 266-9174 before Tuesday, September 23, at 5PM.

Date: September 19, 2003
To: Legislative Colleagues
From: Senator Ted Kanavas and Representative Ann Nischke
Re: Co-Sponsorship of companion bills LRB 2338/LRB 2642 and LRB 3266/LRB 3325 - Capital Formation

Capital Formation

We have heard from many of the state's financial experts who have made the case for the need for more venture capital in our state. To compete in the 21st century, Wisconsin is going to need to change its risk-adverse culture and create a culture that values risk-taking.

The bottom line is that we need to attract enough investment capital to fund the wonderful ideas that come out of, or spin-off from, our universities, businesses, farms and factories. These bills do just that:

AB538 SB261

1.) LRB-3226 and LRB-3325 - This bill creates a qualified new business venture tax credit and a capital gains tax exemption regarding investments in a certified venture A

capital funds, requires a study of new Wisconsin businesses and facilitates the development of certain investment networks.

This proposal came at the recommendation of the Wisconsin Economic Development Association (WEDA). Mr. Terry Grosenheider, Chair of the Capital Formation Work Group at WEDA, testified before the Senate Select Committee on Job Creation and submitted this idea to help lay the foundation for the next Wisconsin economy.

This legislation creates an avenue for individuals to invest in "start up" ideas and receive a tax credit to take away the risk in case the idea does not work. Again, in order to grow this economy, we have to change the culture.

Analysis by the Legislative Reference Bureau
This bill creates an income and franchise tax credit for investments in a new business venture that has its headquarters and the majority of its employees in this state. The bill requires a business desiring certification as a new business venture for purposes of this tax credit to apply to the Department of Commerce. The amount of the tax credit is equal to 20 percent of the taxpayer's investment in a new business venture in the taxable year, except that if the taxpayer's investment exceeds $100,000 in the taxable year the taxpayer may claim 20 percent of $100,000 plus ten percent of the amount of the investment that exceeds $100,000. In addition, if the taxpayer is a broker-dealer, the taxpayer may claim a tax credit in amount equal to ten percent of the first $500,000 raised in an offering of a new business venture in the taxable year. Under current law, a broker-dealer is, generally, any person engaged in the business of effecting transactions in securities.

This bill also requires the Department of Commerce, in cooperation with the Department of Financial Institutions and the University of Wisconsin System, to annually conduct and publish the results of a study of Wisconsin businesses to determine new business formation trends and identify obstacles faced by new Wisconsin businesses and areas where changes in governmental policy may satisfy the needs of new Wisconsin businesses. In addition, the bill requires the Department of Commerce, in cooperation with the Department of Financial Institutions and the University of Wisconsin System, to provide education and other support to facilitate

the development of networks of investors that review new businesses or proposed new businesses for potential investment (commonly called "angel capital networks").

Under current law, there is an income tax exclusion for individuals and tax-option corporations for 60 percent of the net capital gains realized from the sale of assets held for at least one year.

Under this bill, an individual; an individual partner or member of a partnership, limited liability company, or limited liability partnership; or an individual shareholder of a tax-option corporation (claimant) may elect to defer the payment of income taxes on the gain realized from the sale of any asset held more than one year or any asset that is an investment in a venture capital fund (original asset), if the claimant completes a number of requirements.

Under the bill, the claimant must place the gain from the original asset in a segregated account in a financial institution, purchase another capital asset that is an investment in a venture capital fund (replacement asset) within 90 days after the sale of the original asset that generated the gain, and notify the Department of Revenue (DOR) on a form prepared by DOR that the claimant is deferring the payment of income tax on the gain from the original asset because the proceeds have been reinvested. The cost of the replacement asset must be equal to or greater than the gain generated by the sale of the original asset.

The bill also specifies that the basis of the replacement asset shall be its cost minus the gain generated by the sale of the original asset. If a claimant defers the payment of income taxes on the gain generated by the sale of the original asset, the claimant may not use that gain to net the claimant's gains and losses as the claimant could do if the claimant did not elect to defer the payment of taxes on the gain.

Under this bill, the Department of Commerce must promulgate rules establishing a procedure for certifying venture capital funds for purposes of the capital gains tax exemption described above. A venture capital fund may obtain a certification only if the venture capital fund is a private seed and venture capital partnership or entity fund, the venture capital fund has its principal place of business in Wisconsin, and the venture capital fund commits to make equity investments in businesses located in Wisconsin. The bill requires the Department of Commerce, upon request of any person, to issue a written notice indicating whether a venture capital fund is certified. Each such notice that indicates a venture capital fund is certified must include the following statement: "THE WISCONSIN DEPARTMENT OF COMMERCE HAS NOT RECOMMENDED OR APPROVED AN INVESTMENT IN THIS VENTURE CAPITAL FUND OR ASSESSED THE MERITS OR RISKS OF SUCH AN INVESTMENT. INVESTORS SHOULD RELY SOLELY ON THEIR OWN INVESTIGATION AND ANALYSIS AND SEEK INVESTMENT, FINANCIAL, LEGAL, AND TAX ADVICE BEFORE MAKING THEIR OWN DECISION

REGARDING INVESTMENT IN THIS ENTERPRISE."

The bill also requires the Department of Commerce, upon issuing or discontinuing a certification, to notify DOR and give DOR a copy of the certification or discontinuance. This bill will be referred to the Joint Survey Committee on Tax Exemptions for a detailed analysis, which will be printed as an appendix to this bill.

For further information see the *state* fiscal estimate, which will be printed as an appendix to this bill.

<<03-32661.pdf>>

AB557
SB 260

2.) <u>LRB-2338 and LRB 2642</u> - These companion bills create a venture capital investment trust in the Wisconsin Retirement System.

This proposal creates an "option" for state employees and other members of the Wisconsin Retirement System (WRS) to invest up to 10% of their retirement portfolios in Wisconsin venture capital start-ups. Venture capital investments would be managed by the State of Wisconsin Investment Board (SWIB) or managers hired by SWIB. The check-off plan would be completely voluntary and no state tax dollars would be used.

Analysis by the Legislative Reference Bureau

Under current law, participants in the Wisconsin Retirement System (WRS), depending on their date of initial employment under the WRS, are eligible to have their retirement contributions segregated into a fixed annuity and a variable annuity. Currently, a WRS participating employee may elect to have 50% of his or her retirement contributions segregated into a variable annuity. Contributions segregated for a fixed annuity are invested as part of the fixed retirement investment trust and contributions segregated for a variable annuity are invested as part of the variable retirement investment trust. Assets in both trusts are managed and invested by the Investment Board. Assets in the variable retirement investment trust are primarily invested in equity securities, while assets in the fixed retirement investment trust are invested in a number of different investment vehicles. For a WRS participant who has selected the variable annuity option, the value of his or her initial WRS annuity will depend on the investment return on assets in the variable retirement investment trust.

This bill creates a third option that WRS participants may select for their retirement contributions. Under the bill, a WRS participating employee may elect to have 10% of his or her retirement contributions segregated into a venture capital annuity. Contributions segregated for a venture capital annuity are then invested as part of the venture capital investment trust. Assets of the venture capital investment trust are managed by the Investment Board and are required to be invested primarily in equity securities of corporations that are in the venture capital stage. A corporation is considered to be in the venture capital stage if it fulfills all of the following requirements:

1. It has at least 50% of its property and at least 50% of its payroll in this state.
2. It has no more than 500 employees covered by Wisconsin unemployment insurance.
3. It derives no more than 25% of its gross receipts from rents, interest, dividends, and sales of intangible investment assets combined unless the corporation derives less than $3,000 of that income and has not been incorporated for more than two calendar years.

4. It has not issued stock that is listed on the New York Stock Exchange, the American Stock Exchange, or the National Association of Securities Dealers automated quotation system.

5. It has not liquidated its assets in whole or in part for tax purposes only in order to fulfill certain tax requirements and then reorganized.

Under the bill, if a WRS participant has elected the variable annuity option and the venture capital annuity option, the participant must allocate 40% of his or her

retirement contributions for a variable annuity and 10% of his or her retirement contributions for a venture capital annuity; the remaining 50% of the participant's retirement contributions must be allocated for a fixed annuity. If a WRS participant has only elected the venture capital annuity option, the participant must allocate

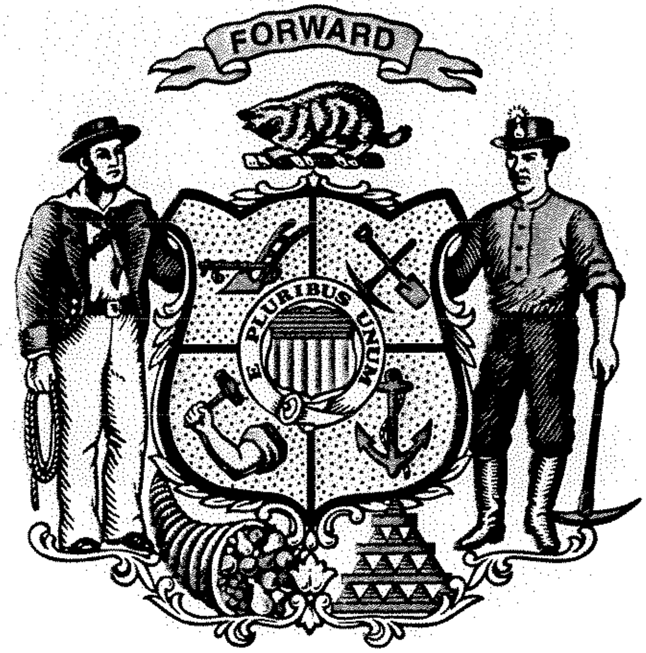
10% of his or her retirement contributions for a venture capital annuity; the remaining 90% of the participant's retirement contributions must be allocated for a

fixed annuity.

This bill will be referred to the Joint Survey Committee on Retirement Systems for a detailed analysis, which will be printed as an appendix to this bill. For further information see the ***state*** fiscal estimate, which will be printed as an appendix to this bill.

<<03-23381.pdf>>

Again, if you would like to be listed as a co-sponsor of these bills, please contact Senator Kanavas' office **6-9174** no later than **5 p.m. on Tuesday, September 23, 2003.**


FORWARD
E PLURIBUS UNUM

Rosenak, Mary Jan

From: Shepherd, Jeremey
Sent: Tuesday, October 21, 2003 12:31 PM
To: 'terrywg1@mac.com'; 'rgcwis@charter.net'; Shanovich, Ron; Russell, Faith; Reinhardt, Rob; Rodriguez, Charlene; Rosenak, Mary Jan; Matthias, Mary; Rose, Laura; Prescott, Matthew; Hubbard, Gregory; Davis, Brett; Manley, Scott; Risch, Jay; Pfaff, Bruce; 'John@ventureinvestors.com'; Ted Kanavas (E-mail); Wornson, Bryon
Cc: Olver, Aaron; Nettles, Cory
Subject: Senate Substitute Amendment to SB 261 (qualified new business venture tax credit, certified venture capital funds, etc.)

Importance: High

Senator Kanavas asked that I share with each of you a senate substitute amendment to SB 261 (companion to Rep. Nischke's AB 538). I've attached the sub at the bottom of this e-mail.

Background on SB 261/AB 538:

This bill uses tax credits for individual investors, broker-dealers and tax exclusions for investments in venture capital, as well as directs DFI, Commerce and the UW to study Wisconsin's business trends. The concept came from the Wisconsin Economic Development Association per Mr. Terry Grosenheider during one of the Senate Select Committee on Job Creation's summer hearings on promoting greater capital investment.

The concept behind this legislation was to create an environment in Wisconsin which rewards risk taking at the individual level. It is meant to change the risk/reward ratio in Wisconsin to favor investments in new, unproven companies and ideas these companies will be the basis of the next Wisconsin economy. This is a market driven proposal that relies upon the entrepreneur and the individual investor, no state funds are put at risk.

This legislation specifically:

- creates a "Qualified New Business Venture" designation,

- creates a tax credit for investment in a QNBV, 20% for the first 100,000, 10% for every dollar thereafter on an annual basis,

- creates a 100% capital gains tax exclusion for QNBV investments,

- directs DFI, Commerce and University to conduct and publish an annual characterization survey of "New Business Venture" formations to determine new business formation trends, identify barriers and obstacles faced by new businesses and potential needs of new businesses,

- directs Commerce to maintain an Internet accessible listing of "Qualified New Business Ventures".

This legislation:

- is based upon market principles of risk and reward,

- creates a new public market for private equity capital,

- reduces the risk of investment in these critical economic sectors,

- increases the potential reward based upon the success of the enterprise,

- compliments the existing and future Venture Capitalists and CAPCOs by creating and funding more, and more viable, startup companies,

- supports economic development throughout Wisconsin based upon innovation and initiative, there is no need for a "Zone designation,"

- lastly, will significantly increase the number of individual Wisconsinites involved in the process of creating and funding businesses.

After the bill was drafted, Legislative Fiscal Bureau raised concerns that the scope of a "qualified" business was too vague and the fiscal effect would be dramatic. Agreeing, Senator Kanavas, Rep. Nischke and Terry Grosenheider decided to amend the bill as follows:

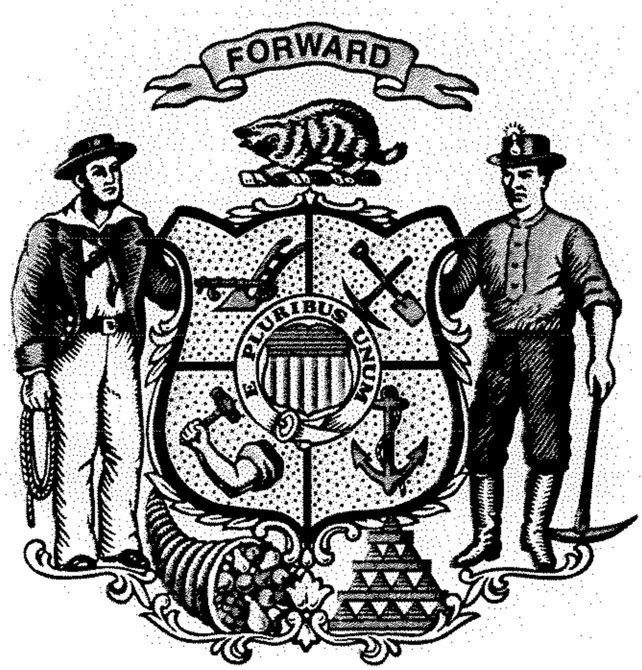
1.) Provide language that says the investment must be held for one year and if it is not, the claimant will have to payback the credit to DOR.
2.) Limit the "qualifying businesses" to corporations (C-corps, S-corps and LLC's)
3.) Specify that investments excluded under "trade" to mean wholesale and retail trade
4.) Eliminate transportation and construction from being able to receive the investments
5.) On page 12, line 6 - replace the language "...commits to make equity investments in businesses..." WITH "...commits to make a four-year rolling average of 50% of their equity investments in businesses..."
6.) Limit the credit to "direct equity investments in qualified businesses" so mutual funds cannot be started or bank loans or other debt financing would not be eligible.
7.) 100% capital gains exclusion for gains realized on the sale of an investment in a certified venture capital fund or in a certified new business venture.

If you have any questions, comments or concerns, please feel free to contact me directly.

Jeremey Shepherd
Office of Senator Ted Kanavas
608.266.9174

PDF

0200


FORWARD
E PLURIBUS UNUM

Rosenak, Mary Jan

From: Shepherd, Jeremey
Sent: Monday, October 27, 2003 9:11 AM
To: Rosenak, Mary Jan
Subject: Commerce plan for Venture Capital

Mary Jan,

Here's a document and diagram of what Commerce is thinking in regards to our bill AB 538/SB 261 and McCormick's bill, AB 524. Take a look at this and let me know what you think...

vc allocation 10-26-03[2].doc

VC Diagram 1[1].doc

Venture Capital Allocation
$185 Million

I. Traditional Venture Capital (VC) Funds — $75 Million in Tax Credits

Modified Assembly Bill 524
Governor's Grow Wisconsin Initiative

- Support the expansion of traditional VC funds in Wisconsin
  - Authorize Commerce to allocate $75 million in tax credits to individuals that invest in qualified Wisconsin Venture Capital firms
  - The credit would be 15% of funds invested not to exceed $300,000. As such, the maximum eligible investment would be $2 million.
  - No more than 10% of credits allocated could be taken in any given year. Therefore, the budget impact would not exceed $7.5 million in any given year.
  - The credits would result in an additional $500 million being invested in Wisconsin VC firms ($500 million increased investment x 15% = $75 million in tax credits)
  - The credits would be allocated in two rounds, 50% in first round (year 1) and 50% in the second round (year 3)
  - Credits can only be taken in tax years beginning on or after 01/01/05
  - VC firms will be required to invest in Wisconsin companies in direct proportion to the amount of the fund that received tax credits, e.g., if the capitalization of Fund A is $100 million and tax credits were provided on only $60 million of that amount, then Fund A would be required to invest 60% of its funds in WI businesses.
  - Note:
    - 1.) The tax credit for traditional VC firms is less than the credit provided angel investors because the VC risk is spread over a portfolio of companies rather than just a single company.
    - 2.) No VC fund would be certified if its total capitalization would be less than $20 million
    - 3.) No single VC fund would receive an allocation of more than $11.25 million in tax credits.

II. Early Stage & Seed Venture Capital Funds — $25 Million in Tax Credits

Modified Assembly Bill 524
Governor's Grow Wisconsin Initiative

- Support the creation of early stage seed funds in Wisconsin
  - Authorize Commerce to allocate $25 million in tax credits to individuals that invest in qualified Wisconsin Seed Funds
  - The credit would be 25% of funds invested not to exceed $125,000. As such, the maximum eligible investment would be $500,000.
  - No more than 10% of the credits allocated could be taken in any given year. Therefore, the budget impact would not exceed $2.5 million in any given year.
  - The credits would result in an additional $100 million being invested in Wisconsin seed funds ($100 million investment x 25% = $25 million in tax credits)
  - The credits would be allocated in two rounds, 50% in first round (year 1) and 50% in the second round (year 3)
  - Credits can only be taken in tax years beginning on or after 01/01/05

- VC firms will be required to invest in Wisconsin companies in direct proportion to the amount of the fund that received tax credits, e.g., if the capitalization of Seed Fund B is $20 million and tax credits were provided on only $16 million of that amount, then Seed Fund B would be required to invest 80% of its funds in WI businesses.
- Notes:
  - 1.) No seed fund would be certified if its total capitalization was less than $10 million.
  - 2.) No more than $5 million in tax credits would be provided to any single seed fund.

III. Community Based Seed Funds **$5 million in Tax Credits**

Modified Assembly Bill 524
Governor's Grow Wisconsin Initiative

- Support the creation of community based seed funds in Wisconsin
  - Authorize Commerce to allocate $5 million in tax credits to individuals that invest in qualified Wisconsin community based seed funds
  - The credit would be 25% of funds invested not to exceed $125,000 per investor. As such, the maximum eligible investment would be $500,000.
  - No more than 10% of the credits allocated could be taken in any given year. Therefore, the budgetary impact would not exceed $500,000 per year.
  - The credits would result in an additional $20 million being invested in Wisconsin community based seed funds ($20 million investment x 25% = $5 million in tax credits)
  - The credits would be allocated on an ongoing basis as eligible applications are received
  - Credits can only be taken in tax years beginning on or after 01/01/05
  - Notes:
    - 1.) No community based seed fund would be certified if its total capitalization was less than $1 million.
    - 2.) No more than $1 million in tax credits would be provided to any single community based seed fund

IV. Angel Investors **$25 Million in Tax Credits**

Modified Assembly Bill 538

- Support Angel Investors
  - Authorize Commerce to allocate $ 25 million in tax credits to individuals that invest in qualified Wisconsin businesses.
  - The credit would be 25% of the funds invested not to exceed $125,000. As such, the maximum eligible investment would be $500,000.
  - No more than 10% of the credits allocated could be taken in any given year. Therefore, the budget impact would not exceed $2.5 million in any given year.
  - The credits would assist, at a minimum, 20 early stage companies per year and result in an additional investment of $100 million over the 10 year life of the program
  - Credits can be earned any time but can only be taken in tax years that begin on or after 01/01/05.

V. Increased Federal Research Spending — $50 million in GPR funds

Governor's Grow Wisconsin Initiative

- Implement the Governor's Technology Commercialization Grant and Loan Program
- Create a set of new programs at Commerce designed to stimulate increased federal spending on R&D in WI as well as provide equity matching grants to assist w/proof of concept type projects.
  - Early Planning Grants — 75% up to $15,000
  - Federal Matching Grants — 20% up to $250,000
  - Bridge Grants — 75% up to $100,000
  - Equity Matching Grants — 50% up to $250,000
  - $4.8 million available on an annual basis.
  - Includes authorization for 2 Commerce positions

VI. Technology Transfer — $5 million in GPR funds

Governor's Grow Wisconsin Initiative

- Implement the Technology Transfer program which is a collaboration between Commerce, WARF, WiSys and the Small Business Development Center.
- The program is needed to offset the fact that Wisconsin lacks both formal and informal networks to assist emerging new economy businesses.
- The Technology Transfer program is designed to provide a coordinated approach to assisting technology start-ups at their nascent stage.
- Services would include IP review, technology searches, patent, trademark and copyright information, feasibility assessments, referrals (atty's, accountants, angel network, VC firms, etc.), training, etc.
- Program involves establishing three new entrepreneurial centers at SBDC offices in northwest, northeast and southeast Wisconsin.
- Implementation of this program will result in state-wide availability of services.

VII. Patients Compensation Fund and SWIB

Governor's Grow Wisconsin Initiative

- Commerce would continue to encourage SWIB & PCF to focus a portion of their respective investment pools on Wisconsin businesses.

Assembly Bill 538
Credits for Investments in Qualified Businesses
by Angel Investors

Introduced By:

Rep.'s: Nischke, McCormick, Ladwig, Musser, Montgomery, Towns, Owens, Lehman, Weber, Van Roy, Krawczyk, Olsen and Ott.

Sen.'s: Kanavas, Stepp, Leibham, Welch, Darling, Zien and Lassa

Issues & Concerns:

- The bill has a stepped-down credit - 20% of the first $100,000 and 10% of the investment in excess of $100,000.
  - *For the sake of simplicity and consistency, Commerce would prefer a fixed credit of 25%.*

- The bill does not cap the level of investment for which a tax credit can be received.
  - *Commerce would prefer to limit the credit to the first $250,000 invested by an individual.* ok

- The bill does not limit the amount of credits that can be taken on an annual basis or cap the maximum amount of credits that will be provided.
  - *Commerce would limit the tax credits available under the program to $25 million and limit the amount of credits that can be taken in any single year to no more than $2.5 million.*

- The bill includes a provision that would allow individuals to defer tax liability on gains from the sale of assets provided they notify DOR and then reinvest the gain in either a qualified venture capital firm or qualified technology businesses.
  - The argument in favor of this is that investors are not sitting on liquid assets to invest. Instead, in order to make the desired investment in new businesses, the investor will have to liquidate assets, pay tax on the gain, and then reinvest the remainder. The concern is that the tax credit provided on the new investment may not off-set the taxes paid on the gain. As such, the investor may choose not to participate in the program.
  - *Commerce's position is that this provision adds an unnecessary level of complexity to the program and clouds the program benefit, i.e., are we providing tax credits on deferred taxes that are owed to the state. Paying tax on the capital gain is the status quo. We are trying to compete against the plethora of options that individuals have as to where to place their liquid assets or after-tax gains. The proposed tax credit should be an attractive incentive.*

- The bill includes a provision that would treat gains from the sale of an asset that is a technology business different from the gains from the sale of other assets. Specifically, the bill would allow gains realized on the sale of investments in technology businesses to be tax-free.
  - *Commerce's position is that this provision is unnecessary given the 25% tax credit. Commerce is also concerned about the precedent of making certain gains tax-free. This issue could negatively impact the broader based goals of the initiative.*

- The bill includes a finders fee of up to $50,000 for broker-dealers whose clients invest in businesses are eligible to receive the tax credit.
  - *Commerce does not believe that a finders fee is appropriate and is convinced that professional broker-dealers will make their clients aware of the tax credit program. Commerce does not want to get into the debate about commission vs. fee-for-service financial services.*

- The bill requires Commerce to prepare an annual report on business start-ups and impediments to growth.
  - *Commerce supports this provision but feels that a biennial report will allow for a better presentation of the data.*

- The bill defines eligible businesses as: 1.) Headquartered in WI - 2.) 51% of employees in WI - 3.) Avg net income less than $20 million - 4.) Net worth less than $75 million - 5.) Not professional services (acct., atty's, physicians, trade, leisure, hospitality, banking or real estate) - 6.) Has been in business for at least one year but less than ten years.
  - *Commerce believes that the definition should be modified to target small businesses and include start-ups. Specific language to follow.*

Assembly Bill 524
Credits for Investments in Qualified
Venture Capital Funds

Introduced By:

Rep.'s: McCormick, Seratti, Hahn, Albers, Krawczyk, Friske, Gronemus, Weber, Gielow and Ott.

Sen.'s: Kanavas, Stepp, Lassa, Reynolds and Roessler

Issues and Concerns:

- The bill provides a 6% credit on investments in qualified venture capital (VC) funds up to $60,000 per claimant and a 20% credit for investments in community-based VC funds.
  - *Commerce believes that three types of qualifying funds should be recognized. Namely, traditional VC funds, early stage seed funds and community-based seed funds.*
  - *Commerce also believes that the credit percentage and dollar amount of credits available should take into consideration the differences between the three types of funds. Specifically Commerce recommends:*
    - *Traditional VC funds - A 15% credit of up to $300,000 per individual investor with the total credits allocated not to exceed $75 million.*
    - *Early stage seed funds - A 25% credit of up to $125,000 per individual investor with the total credits allocated not to exceed $25 million/*
    - *Community-based seed funds - a 25% credit of up to $125,000 per investor with the total credits allocated not to exceed $5 million.*

- The bill does not require VC firms to invest in WI businesses but asks that they make a commitment to consider making investments in WI businesses.
  - *Commerce believes that the VC firms should be required to invest in WI businesses in proportion to the % of the fund that is receiving tax credits.*
  - *Any negative impact associated with such a geographical limitation should be mitigated by the increased size of the tax credit.*
  - *Also, the individual investors and fund managers can decide the % that they want the fund targeted to WI businesses by having investors forgo tax credits on a portion of their investment or investing more than the maximum eligible for the credit.*

- The bill creates a Capital Investment Board with 3 members appointed by the Governor and 1 member appointed by the Speaker and 1 member appointed by the Senate Majority Leader. The bill also directs the Board to promulgate rules, accept applications, issue notices, certify funds and hire staff.
  - *Commerce supports the establishment of a Capital Investment Board and is generally comfortable with the make-up of the Board. However, Commerce believes that the Board should act in a fashion similar to other Commerce boards and/or councils such as the Wisconsin Development Finance Board and the Industrial Revenue Bond Council. Under this model, the Capital Investment Board would be responsible for certifying funds while the administrative functions, including staffing, would be carried out by Commerce.*

- The bill includes language that would allow tax credits to be provided to individuals that invest in qualified businesses.
  - *Commerce believes this language should be eliminated since investments into qualified businesses is addressed in Assembly Bill 538.*

- The bill allows the tax credits to be carried for a period of 5 years.
  - *Commerce believes the carry-forward provision should be 15 years which is consistent with what is allowed under Commerce's other tax credit programs.*

ISSUES AND PROCESS

1. What could this mean with regard to impact

Fund Type	Minimum Size		Maximum Size		No. of Funds	
	Cash	Credits	Cash	Credits	Min	Max
Traditional	$20 mil.	$3 mil.	$75 mil.	$11.25 mil.	6.7	25
Seed	$10 mil.	$2.5 mil.	$20 mil.	$5 mil	5	10

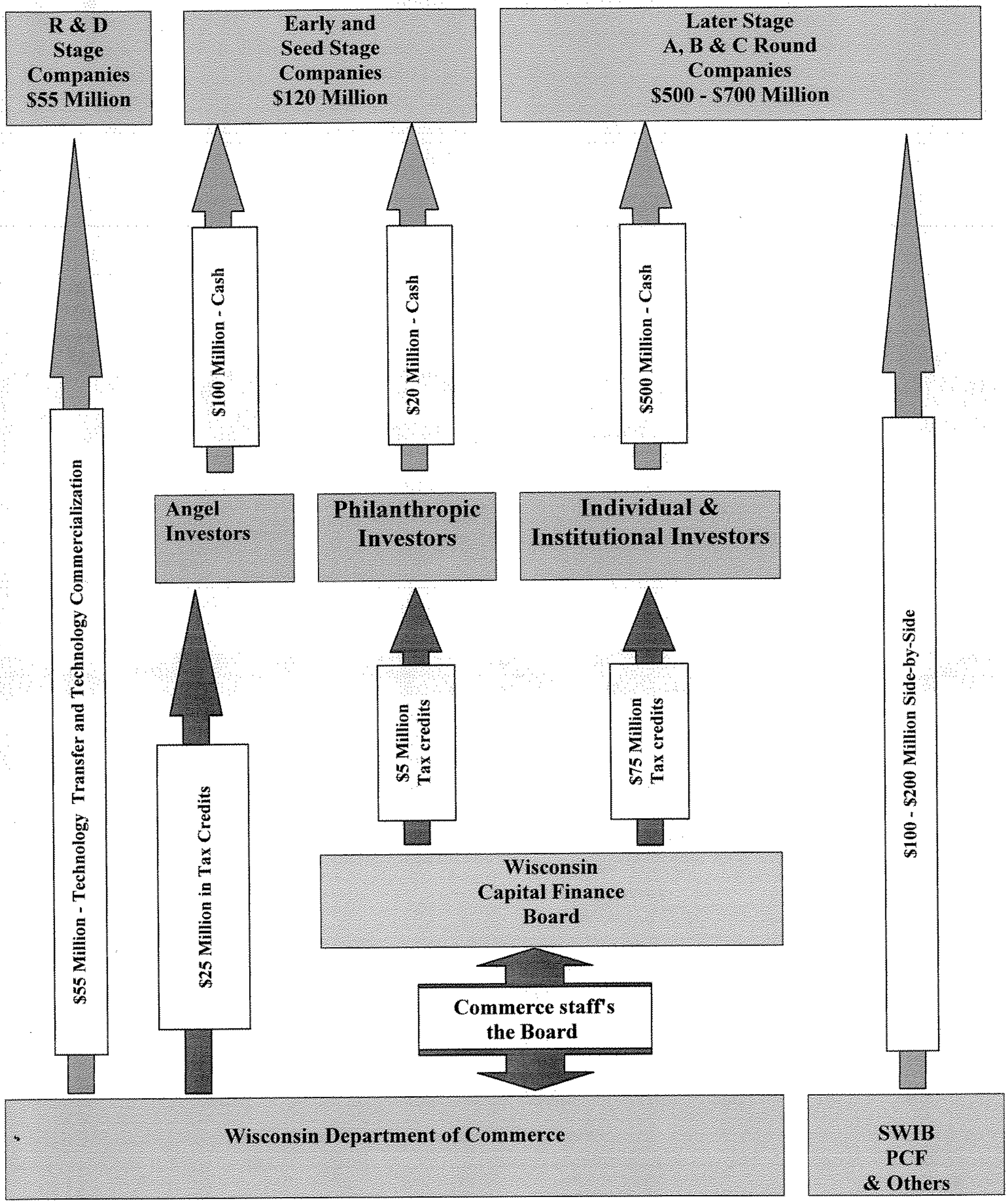
2. We would give each applicant 6 months from the date certified by Commerce to raise the minimum amount of capital.

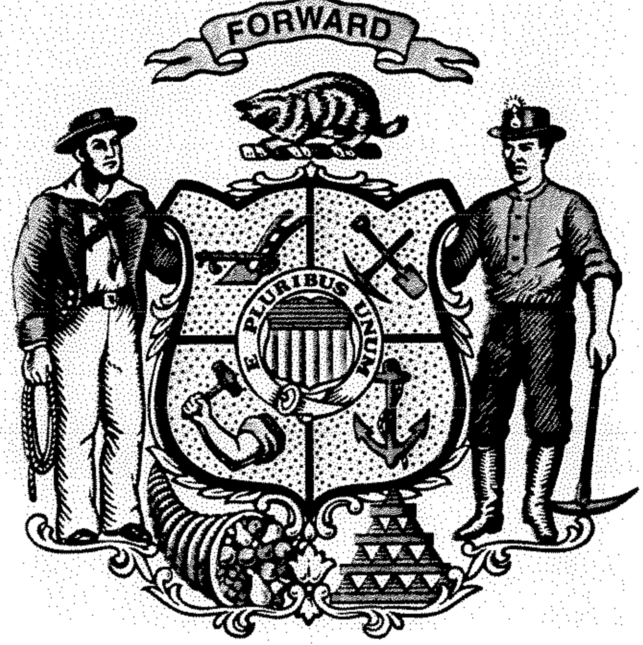
3. With regard to the Angel Investor credits, we would limit the investment in a certified business to no more than $1 million (4 angels @ $250,000 each).

4. From a budgetary perspective, the impact is as follows:

Program	FYE	6/04	6/05	6/06	6/07	6/08 - 6/13		
VC-Trad. Rnd 1		0	0	3.75	3.75	3.75	3.75	
Rnd 2		0	0	0.00	0.00	3.75	3.75	
VC-Seed Rnd 1		0	0	1.25	1.25	1.25	1.25	
Rnd 2		0	0	0.00	0.00	1.25	1.25	
Comm. Fund		0	0	0.50	0.50	0.50	0.50	
Angel		0	0	2.50	2.50	2.50	2.50	
Federal R&D		5	5	5.00	5.00	5.00	5.00	
Tech. Trfr.		1	1	1.00	1.00	1.00	1.00	
Total - Year		6	6	14.00	14.00	19.00	19.00	
- Biennium		12		28		38		

Venture Capital Proposal




FORWARD
E PLURIBUS UNUM

Wisconsin Economic Development Association Inc.

TO: Members, Joint Committee on Finance

FROM: Jim Hough, on behalf of
Wisconsin Economic Development Association

DATE: October 27, 2003

RE: **SUPPORT FOR SB 261 & AB 538**

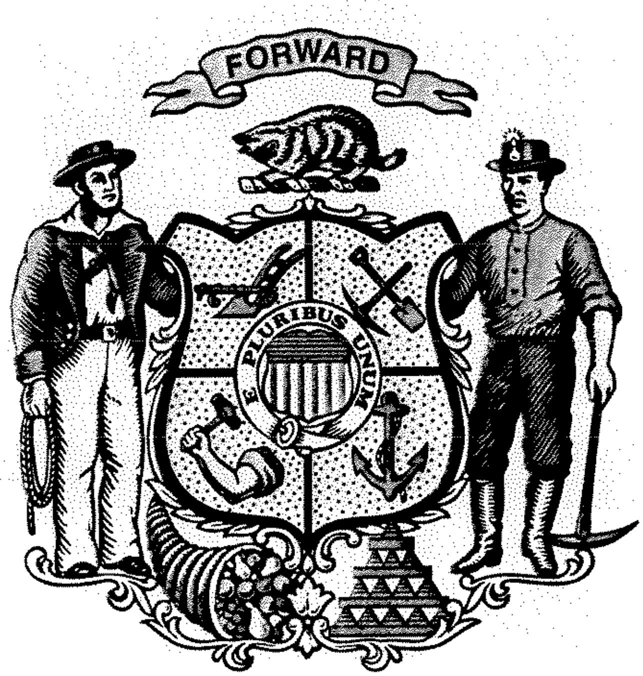
The Wisconsin Economic Development Association (WEDA) strongly supports and respectfully urges a recommendation for passage of the above referenced bills.

It is critically important that Wisconsin feeds the pipeline of business development to enhance the vitality of Wisconsin's future economy. More small businesses must be created by entrepreneurs and financed by small investors. Wisconsin needs: **more startup companies; more entrepreneurs; more investment to build our economic base; and, more opportunity for our educated youth.**

Capital and investment will flow where a better return can be realized. This legislation will create an environment in Wisconsin which rewards risk-taking at the individual level. This legislation will change the risk/reward ratio in Wisconsin to favor investment in new companies and ideas. These companies will be the basis of the next Wisconsin economy. This is a market driven proposal that relies upon the skill of the entrepreneur and the willingness of the individual investor, no state funds are put at risk.

The proposed legislation will target startup agricultural and manufacturing companies which are less than 10 years old. For investors in these companies, the proposal will: **reduce** the risk of investment by creating an investor tax credit of 20% of the first $100,000 invested; **increase** the potential reward based upon the success of the enterprise by eliminating state capital gains taxes on long-term investments; and, **compliment** existing and future venture capitalists and CAPCOs by creating and funding more and more viable startup companies.

WEDA, a statewide association of over 500 economic development professionals, wishes to thank its Capital Formation Committee, and its Co-Chairs Terry Grosenheider and Marcia Theusch, for their superb effort in working with Senator Kanavas and Representative Nischke in developing this very critical piece of economic development legislation.


FORWARD
E PLURIBUS UNUM

Legislative Fiscal Bureau
One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

October 28, 2003

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Senate Substitute Amendment LRB 0200/5 to Senate Bill 261: Individual and Corporate Income and Franchise Taxes: Income Tax Exclusion for Capital Gains from Certain Investments, Qualified Business Investment Tax Credit, and Related Administrative Responsibilities.

Senate Substitute Amendment LRB 0200/5 to Senate Bill 261 would provide an income tax exclusion for capital gains on certain investments and create income and franchise tax credits for investments in qualified businesses. SB 261 was introduced on September 24, 2003, and referred to the Joint Committee on Finance. However, the Co-chairs of the Committee have elected to take up Senate Substitute Amendment LRB 0200/5 to SB 261, which is addressed in this memorandum.

CURRENT LAW

There are several steps involved in calculating Wisconsin individual income tax liability. In brief, these steps are to: (a) determine Wisconsin adjusted gross income (AGI) by making additions and subtractions to federal adjusted gross income that are required under state law; (b) subtract the state's standard deduction and personal exemptions from AGI to find Wisconsin taxable income; (c) apply the state's tax rate and bracket schedule to taxable income to find the gross tax amount; (d) subtract applicable state tax credits from the gross tax amount to arrive at the net tax; and (e) determine if the state alternative minimum tax applies.

Current law provides a 60% individual income tax exclusion for capital gains from the sale of most assets held at least one year (long-term capital gains). In the case of certain business assets sold to family members and the sale of qualifying small business stock, long-term capital gains are completed excluded. There is no exclusion for short-term capital gains, which are the gains on sales of assets held for less than a year.

A corporation determines tax liability by: (a) computing gross income, including gains on the sale of capital assets; (b) subtracting allowable deductions; (c) apportioning and allocating income, if necessary; and (d) applying the tax rate of 7.9% to arrive at gross tax liability. To determine net tax liability, allowable credits are subtracted. Corporate income and franchise tax credits are provided for Wisconsin sales taxes paid on fuel and electricity used in manufacturing, qualified capital and noncapital research expenses, contributions to the Wisconsin Housing and Economic Development Authority, certain expenses to rehabilitate historical structures, and for certain economic activities in development, enterprise development, development opportunity, agricultural development, and technology zones.

SUMMARY OF SUBSTITUTE AMENDMENT

Senate Substitute Amendment LRB 0200/5 to Senate Bill 261 would provide: (a) an income tax exclusion for gains from the sale of investments in qualified businesses or venture capital funds; and (b) an income and franchise tax credit for investments in qualified businesses. The substitute amendment would also require the Department of Commerce to certify eligible businesses and venture capital funds and, in conjunction with the Department of Financial Institutions (DFI) and the Board of Regents of the University of Wisconsin, conduct related studies and surveys and provide educational and other support to investors.

Individual Income Tax Exclusion for Gains from the Sale of Investments in Certain Certified Businesses and Venture Capital Funds. The substitute amendment would provide a 100% individual income tax exclusion for long-term capital gains realized from the sale of an asset that is an investment in a certified qualified new business venture or a certified venture capital fund. Capital gains and capital losses would have to be netted in determining the exclusion.

Because current law allows 60% of all long-term capital gains to be excluded from taxable income, the net effect of the substitute amendment would to exclude from taxation 40% of a long-term capital gain on an investment in a certified qualified new business or certified venture capital fund.

Qualified New Business Venture Investment Tax Credit. The substitute amendment would provide a tax credit, under the individual and corporate income and franchise taxes, equal to 20% of the first $100,000 of direct equity investments in a qualified new business venture, and 10% of amounts invested in such businesses that exceed $100,000. Unused credit amounts could be carried forward up to 15 years to offset future tax liabilities.

If an equity investment is held by the claimant for less than one year, the claimant would be required to pay to the Department of Revenue (DOR), in a manner determined by the Department, the amount of credit received by the claimant that was related to the investment.

Partnerships, limited liability companies (LLCs), and tax-option corporations (S corporations) could not claim the credits, but eligibility for, and the amount of, the credit would be based on each entity's equity investment that was attributable to its business operations. A partnership, LLC, or tax-option corporation would be required to compute the amount of credit each of its partners, members, or shareholders could claim and provide that information to them. Partners, members of LLCs, and shareholders of tax-option corporations would claim the credit in proportion to their ownership interest.

The Department of Revenue would administer the tax credits, and current law provisions related to change of business or ownership and timely claims would apply to the qualified new business investment tax credit.

Qualified New Business Ventures. The substitute amendment would require that a qualified new business venture must be certified by the Department of Commerce. To be certified, the business would have to apply to Commerce for each tax year it wished to be certified. Commerce would be required to certify only the first 1,000 eligible businesses in the order in which their applications were received. In order to be certified, a business would have to satisfy all of the following conditions:

(a) The business has its headquarters in the state.

(b) At least 51% of the employees of the business are employed in Wisconsin.

(c) The average annual net income of the business for each of the two tax years immediately preceding the tax year for which the credit is claimed is $20 million or less.

(d) The net worth of the business in the tax year for which the credit is claimed is $40 million or less.

(e) The business is not predominantly engaged in providing professional services by accountants, lawyers, or physicians.

(f) The business is not engaged predominantly in wholesale or retail trade, or in the leisure and hospitality industry.

(g) The business is not engaged in banking or lending, or in developing real estate for resale.

(h) The business does not make loans to, or investments in, certified capital companies.

(i) The business has been operating in Wisconsin for not more than 10 consecutive years.

(j) The business is a corporation or limited liability company.

(k) The business is not engaged in transportation or construction.

Certified Venture Capital Funds. Commerce would also be required to certify venture capital funds as eligible for investments that would qualify for the individual income tax capital gains exclusion in the substitute amendment. Commerce would have to promulgate administrative rules that permit the Department to certify a venture capital fund only if the fund: (a) is a private seed and venture capital partnership or entity fund; (b) has its principal place of business in Wisconsin; and (c) commits to maintain an average of 50% of its equity investments, calculated over a four-year period, in qualified businesses that are located in the state.

Department of Commerce Administration. Under provisions of the substitute amendment, the Department of Commerce would administer the certification process for qualified new business ventures and venture capital funds and would be required to promulgate administrative rules related to its administrative responsibilities. The substitute amendment specifies that, to be certified as a qualified new business venture, a business must submit an application to Commerce in each tax year for which it desires certification. Each year, Commerce would be required to certify only the first 1,000 eligible businesses in the order in which their applications were received. The Department would be required to notify DOR of every certified and decertified business and to maintain a list of certified businesses and permit public access to that list through the Department's Internet website. The rules would also have to require that, to be certified, the qualified new business venture must meet the criteria (related to net income, net worth, type of business, and age of business) described previously.

The substitute amendment also requires Commerce to promulgate rules establishing a procedure for certifying venture capital funds that include all of the following:

(a) Require that, to be certified, the venture capital fund must file an application with the Department.

(b) Permit the Department to certify a venture capital fund only if the fund is a private seed and venture capital partnership or entity fund, the fund has its principal place of business in Wisconsin, and the fund commits to maintain an average, calculated over a four-year period, of 50% of its equity investments in businesses that are located in Wisconsin.

(c) Require an applicant for certification of a certified venture capital fund to provide Commerce with any information the Department determines is necessary to ensure eligibility for certification and compliance with the law and rules promulgated by the Department.

Upon the request of any person, the Department of Commerce would be required to issue a written notice indicating whether a venture capital fund is certified for the purpose of the capital gains exclusion. Each notice would have to include the following statement: "The Wisconsin Department of Commerce has not recommended or approved an investment in this venture capital fund or assessed the merits or risks of such an investment. Investors should rely solely on their own investigation and analysis and seek investment, financial, legal, and tax advice before making their own decision regarding investment in this enterprise." When Commerce either certified or decertified an enterprise, it would have to notify the Department of Revenue and provide DOR with a copy of the certification or discontinuance. Commerce would also be required to submit proposed rules that are required under the substitute amendment to the Legislative Council staff for review by the first day of the sixth month beginning after publication of the substitute amendment.

Commerce, in cooperation with DFI and the Board of Regents of the University of Wisconsin System (UWS), would be required to conduct and publish an annual study of Wisconsin businesses to determine new business formation trends, identify obstacles faced by new Wisconsin businesses, and identify areas where changes in government policy may satisfy the needs of new Wisconsin businesses. As part of this study, Commerce would have to conduct a survey of Wisconsin businesses. Also, in cooperation with DFI and the Board of Regents of UWS, Commerce would be required to provide education and other support to facilitate the development of networks of investors that review new businesses or proposed new businesses for potential investment.

Effective Date. The substitute amendment would generally take effect on January 1, 2004. However, the individual and corporate income and franchise tax capital gains exclusion and tax credit provisions would first apply to tax years beginning on or after January 1, 2006. As noted, proposed rules would have to be submitted by the first day of the sixth month beginning after publication.

FISCAL EFFECT

Senate Substitute Amendment LRB 0200/5 to Senate Bill 261 would provide an income tax exclusion for gains from the sale of certain investments. A tax credit would be provided for investments in qualified new businesses. The Department of Commerce would be responsible for certifying businesses and venture capital funds. Commerce, the UWS, and DFI would be required to conduct and publish an annual study and provide support to investors.

The fiscal estimates for the proposed capital gains exclusion and tax credit provisions are based on the following sources of information: (a) Department of Revenue aggregate individual and corporate income and franchise tax statistics; (b) federal Internal Revenue Service (IRS) data; (c) federal Small Business Administration data; (d) Department of Financial Institutions data; (e) data from the national Venture Capital Association; and (f) interviews with numerous individuals active in various aspects of capital investment. However, due to the lack of specific data regarding aggregate investments of the type for which the exclusion and credit could be claimed and the assumptions made in developing the fiscal effect, the actual revenue effect of the substitute amendment's provisions could vary significantly from the estimated fiscal effect.

Individual Income Tax Exclusion for Capital Gains on Investments in Venture Capital Funds and Qualified New Business Ventures. The substitute amendment would provide a 100%

individual income tax exclusion for long-term capital gains from the sale of an investment in a certified qualified new business venture or certified venture capital fund. This treatment would first apply to tax years beginning on or after January 1, 2006. Consequently, there would be no fiscal effect during the 2003-05 biennium. However, once the provisions were effective in fiscal year 2006-07, it is estimated that annual individual income tax revenues would be reduced by $100,000.

Investment Tax Credit. The substitute amendment would provide a tax credit, under the individual and corporate income and franchise taxes, equal to 20% of the first $100,000 of direct equity investments in a qualified new business venture, and 10% of amounts invested that exceed $100,000. Each year, only the first 1,000 businesses that were certified would qualify for the tax credit. Because the credit would first apply to tax years beginning on or after January 1, 2006, there would be no fiscal effect during the 2003-05 biennium. When the tax credit becomes effective in fiscal year 2006-07, it is estimated that annual income and franchise tax revenues would be reduced by $8.0 million.

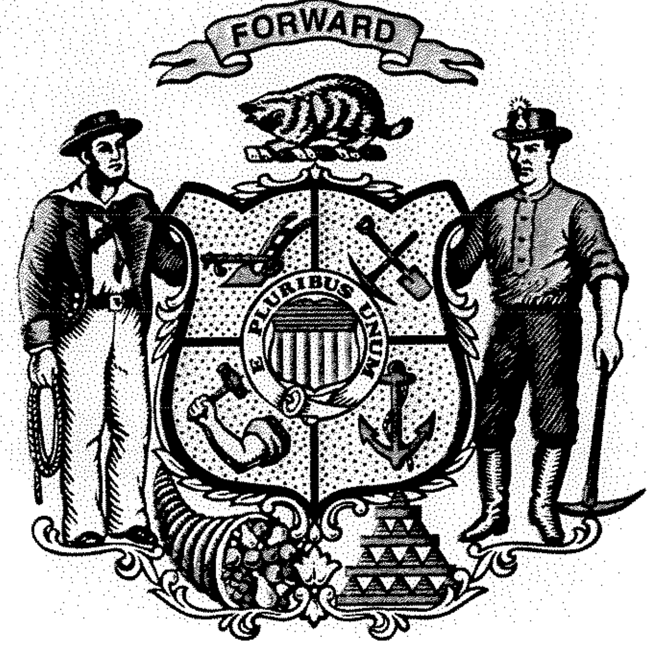
Administrative Provisions. Under provisions of the substitute amendment, the Department of Commerce would administer the certification process for qualified new business ventures and venture capital funds and would be required to promulgate administrative rules related to its administrative responsibilities. In addition, Commerce, in cooperation with DFI and the Board of Regents of the University of Wisconsin System, would be required to conduct and publish an annual study related to new business formation in Wisconsin. Also, in cooperation with DFI and the Board of Regents of UWS, Commerce would be required to provide support to certain investors.

The substitute amendment does not provide additional funding or positions for administration and related activities. However, in its fiscal note to SB 261 (which included similar provisions), Commerce indicates that SB 261 would add the following activities to the Department's workload: (a) certification of qualified new business ventures; (b) certification of qualified venture capital funds; (c) developing and publishing a study of Wisconsin businesses; and (d) providing education and support to investors. Commerce indicates that it would require 1.0 GPR position and $64,600 GPR annually to perform these activities.

In its fiscal note to SB 261, the University of Wisconsin System indicates that the survey of state businesses and education and support activities would most likely be provided by the UW-Extension, Small Business Development Center or schools of business from the various UW campuses. The UWS indicates that, because the level of UWS involvement is not currently known, the fiscal effect the SB 261 provisions is indeterminate.

DFI indicates that it could provide support for the required activities with current staff.

Prepared by: Ron Shanovich


FORWARD
E PLURIBUS UNUM

WISCONSIN LEGISLATURE

P. O. Box 7882 Madison, WI 53707-7882

Tuesday, October 28, 2003
For Immediate Release

Contact: Ted Kanavas (608) 266-9174
Ann Nischke (608) 266-8580

Qualified New Business Venture Bill Provides Needed Funds to Startup Companies

Bill creates a risk/reward ratio that favors investments in new Wisconsin companies.

(Madison) – The Legislature's Joint Finance Committee today passed Senate Bill 261, which creates a risk/reward ratio that favors investments in new Wisconsin companies. The bill, co-authored by state Senator Ted Kanavas (R-Brookfield) and Representative Ann Nischke (R-Waukesha), passed on a bi-partisan vote of 10-4. The bill must now go before both houses of the Legislature and be signed by the governor before it can become law.

"Early-stage venture capital companies are the future of Wisconsin's new, innovation economy," Kanavas said. "This bill is a market-driven proposal that relies upon the entrepreneur and the individual investor. Individuals will now be rewarded for taking a risk on Wisconsin's companies."

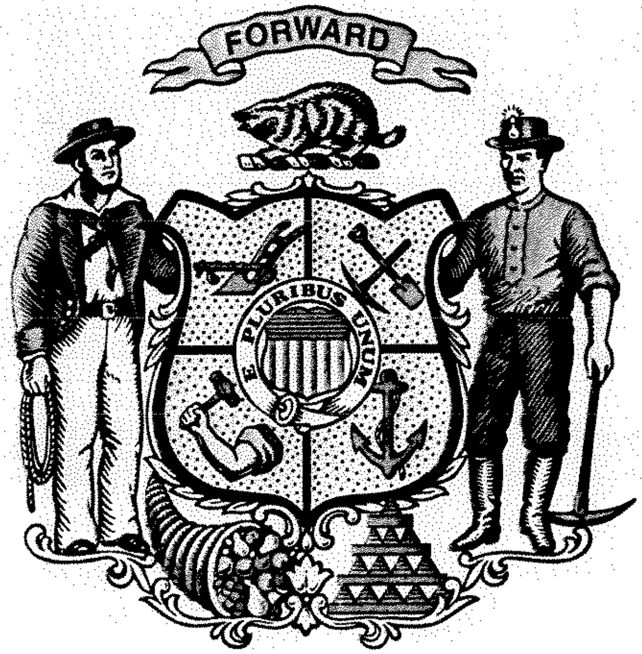
"We need to improve Wisconsin's ranking in attracting entrepreneurs to our state," said Nischke. "Wisconsin has a lot to offer to small businesses and this bill will help bring new startup companies to our state. We have the brain power and ideas right here, but the investment dollars have been flowing to other states."

This legislation specifically

- creates a "Qualified New Business Venture" (QNBV) designation;
- creates a tax credit for investment in a QNBV, 20% for the first 100,000, 10% for every dollar thereafter on an annual basis;
- creates a 100% long term capital gains tax exclusion for QNBV investments;
- directs DFI, Commerce and UW to conduct and publish an annual characterization survey of "New Business Venture" formations to determine new business trends, identify barriers and obstacles faced by new businesses and potential needs of new businesses, directs Commerce to maintain an Internet accessible listing of "QNBVs".

"This bill creates a new avenue for private-equity capital and reduces the risk of investment in these early-stage companies," Kanavas said. "It will also help us change the culture of Wisconsin investment practices, by creating incentive to take on risk so that we can invest in our talented individuals."

-30-


FORWARD
E PLURIBUS UNUM

P. O. Box 7970
Madison, Wisconsin 53707
(608) 266-1018
TDD #: (608) 264-8777
http://www.commerce.state.wi.us
http://www.wisconsin.gov
Jim Doyle, Governor
Cory L. Nettles, Secretary

Wisconsin
Department of Commerce

November 11, 2003

Dear Senator Kanavas and Representative Ward,

I just wanted to take a minute to summarize the broad outline of our conversation, which includes enacting:

1.) Tech Commercialization Grant Program – This came from the Governor's Grow Wisconsin Initiative. It will cost $4.5 million each year for ten years (**$45 million total)**

2.) SB 261/AB 538 - "Qualified New Business Ventures" - individual angel investors can receive tax credits for investing in QNBVs. It also requires a study of new Wisconsin businesses, facilitating the development of certain investor networks

We've agreed to remove the long-term capital gains exclusion, cap the program at $30 million in total tax credits, with an incremental tax credit scale of fewer credits in the first few years and more in the outer years. Also, limit the amount of investment into any one business at $1 million and limit the most any one individual can take in tax credits at $500,000. (**$30 million total)**

3.) Creating an Early Stage Fund - Commerce will certify the fund managers through an RFP process and certify eligible businesses. An incremental tax credit scale of fewer credits in the first few years and more in the outer years will also apply to this provision. (**$35 million total)**

4.) SB 249/AB 531 – The Wisconsin Capital Companies Program - This includes opening the program up to any business that pays corporate franchise, income, or a premium tax, the state will get 30% of the returns unless the WISCAP manager leverages up to 10% of private side-by-side investments, in which case the state would receive 20% of the gains (and other reforms we have already agreed to). This will also have an incremental tax credit scale of fewer credits in the first few years and more credits in the outer years. (**$75 million total)**

By making appropriations in this package, certain parts of this legislation will be subject to the Governor's veto authority. We want to continue to communicate in a good faith effort to resolve any disputes before the Governor takes action on this legislation.

I look forward to working with you to advance an economic growth agenda in Wisconsin.

Sincerely,

Cory L. Nettles
Secretary
Department of Commerce

WISCONSIN LEGISLATURE

P. O. Box 7882 Madison, WI 53707-7882

Strategic Business Objectives of Venture Capital Proposals

Legislature

1.) The plan must bring in more capital investment in Wisconsin to help the knowledge-based economy. Specifically, we want more investment deals done in our "cluster" groups of **Biotechnology, Dairy, Food products and processing, Information technology, Small engine manufacturing, Medical devices, Paper, Plastics and Tourism.** (WI ranks 25th in the number of venture capital deals done compared to our neighbors of MN at 14th and IL at 17th).

2.) It must bring more high-end, high-wage jobs created as a bi-product of the expansion of new businesses.

3.) It must leverage additional private resources and create more Venture Capital firms in Wisconsin to do the job rather than government.

4.) We must be able to structure the package so it is affordable but focuses on seed and early stage companies.

Governor

1.) The plan must be affordable because the budget cannot be busted after we worked so hard to balance it.

2.) The plan must target resources on seed and early stage companies because the greatest need we have is helping to jump-start more companies.

3.) It must be focused on creating jobs at the high end – the kind of jobs that pay high wages, support families, and grow the economy.

4.) The money must go to capital markets and job creation, not administration and overhead.

5.) The plan should leverage additional resources from the private sector.

Job Creation Committee Hears Hours of Testimony on Ways to Promote Greater Capital Investment

In June, Senate Majority Leader Mary Panzer announced the formation of the Senate Select Committee on Job Creation, deeming Wisconsin "open for business." As Co-Chairs of that Committee, Senator Ted Kanavas and Senator Cathy Stepp began a series of informational hearings to gather testimony from business leaders, venture capital firms, intellectual property experts, and university officials.

The second hearing of the Job Creation Committee focused on promoting greater venture capital investment and intellectual property utilization. From that hearing, the committee heard loud and clear that Wisconsin lags behind in venture capital that supports the strong ideas that are developed at our state universities. Most of these ideas don't get out of the incubator stage because of the lack of venture capital in Wisconsin.

Members of the Committee heard hours of testimony from invited speakers including:

> Tom Still of WI Technology Council, UW-Madison Chancellor John Wiley, Dr. David Ward of NorthStar, John Neis of Venture Investors, John Barni of TomoTherapy, Mark Zager of Alfalight, Dr. James Prudent of EraGen BioSciences, Mark Bugher of UW Research Park, Lane Brostrom of TechStar, Terry Grossenheider of US Bank, George Franco of Avante Investors, James Buchen of WMC, Andy Cohn of WARF, Joe Hildebrandt of Foley & Lardner, Rick Chandler of the Wisconsin Realtors Association, Charlie Hoslett of UW Office of Corporate Relations, Patricia Lipton of the State of Wisconsin Investment Board, Sen. Moore (D-Milwaukee) and Rep. Ward (R-Fort Atkinson).

Administration Makes Recommendations

Two years ago, the Department of Commerce made recommendations to the Governor's office and the Legislature on ways to tighten up the administration of the CAPCO program and make it better.

Commerce has offered invaluable insight and thoughts on not only the reformed CAPCO legislation, but on how and what an overall successful venture capital package should look like. Secretary Nettles has been invaluable in this process as he understands what it will take to truly grow Wisconsin's knowledge-based economy.

Simply put, the Governor's objectives on venture capital are a mirror of the Legislature's objectives. The Wisconsin Technology Council, WMC, Biotechnology Association and many other state experts, have expressed the need for the Legislature and Governor to pass legislation that will provide seed and early start up funding.

Problem and Solution: Promoting Capital Investment

PROBLEM: Wisconsin ranks 47th in new business start-ups and ranks well below the national average for personal income. According to the National Venture Capital Association, Wisconsin ranks 25th nationally in per capita venture capital investments. Hours of testimony and many economic summits have indicated that we must do a better job of capital formation in Wisconsin in order to bring higher paying jobs to the state.

SOLUTION: Senate Bill 249/AB 531. This bill provides an additional **$75 million** in venture capital to small Wisconsin companies through a reformed CAPCO program called *The Wisconsin Capital Companies Program*. The original CAPCO program offered tax credits to insurance companies in return for their commitment of $50 million in venture capital that can *only* be invested in small Wisconsin companies. The new program will give the state a share of the gains and open the program to companies that pay corporate taxes.

BILL STATUS: SB 249/AB 531 is scheduled to be taken up in JFC on Wednesday. Sen(s). Kanavas, Moore and Rep. Ward worked with the Department of Commerce to tighten up the administration of the program and a return to Wisconsin taxpayers.

SOLUTION: Senate Bill 261/AB 538. This bill uses tax credits for individual investors, as well as directs DFI, Commerce and the UW to study Wisconsin's business trends. The concept came from the Wisconsin Economic Development Association per Mr. Terry Grosenheider.

BILL STATUS: SB 261 has passed JFC and Tax Exemptions. Sen. Kanavas and Rep. Nischke have amended the bill to narrow the tax credits to **$30 million** total.

SOLUTION: Legislation that creates and Early Stage Fund. The provision will create an income and franchise tax credit for private investors in early stage funds. The Department of Commerce will certify fund managers through a RFP process and certify eligible businesses. The total cost would be **$35 million.**

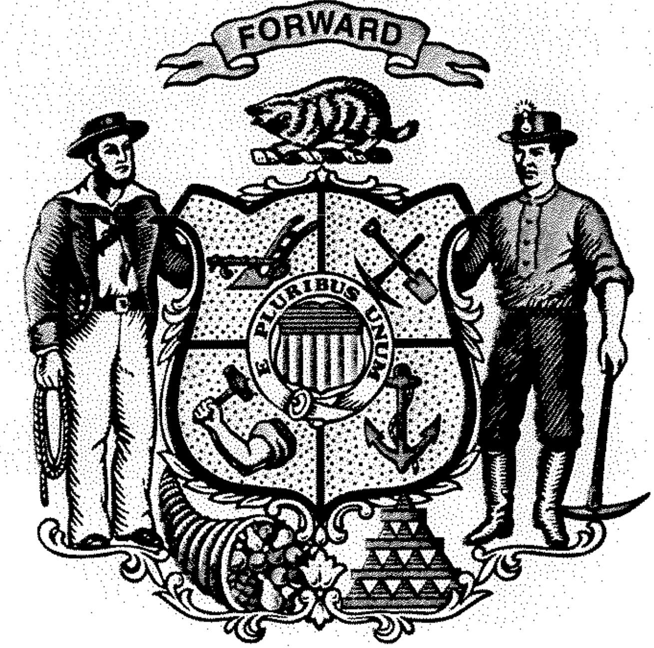
BILL STATUS: This provision will be included as a substitute amendment.

SOLUTION: Legislation that creates a Technology Commercialization Grant and Loan Program. The focus of this initiative is threefold: To increase the number of new business opportunities spinning out of the state's research institutions. (Note: All research institutions, not just the UW System). To increase the amount of federal research and development awards made to Wisconsin's private sector businesses. To ensure that the new business ventures are better prepared to compete in the private sector capital markets.

BILL STATUS: This was a part of the Governor's GROW Wisconsin Initiative. This provision will be included as a substitute amendment. **The cost will be $45 million.**

Venture Capital Package Fiscal Effect to State

	FY 05 Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11
Tech Grant $45 million	4.5M	4.5M	4.5M	4.5M	4.5M	4.5M	4.5M	4.5M	4.5M	4.5M	0
Angel/QNBV $30 million	1.5M	1.5M	3M	3M	3M	3M	3M	3M	3M	3M	3M
Early Stage $35 million	0	1.5M	1.5M	4.5M	4.5M	4.5M	4.5M	4.5M	4.5M	4.5M	4.5M
WISCAP $75 million	5.625M	5.625M	7.9M	7.9M	7.9M	7.9M	7.9M	7.9M	7.9M	7.9M	0
TOTAL: $185 million	11.6M	13.1M	16.9M	19.9M	19.9M	19.9M	19.9M	19.9M	19.9M	19.9M	7.5M


FORWARD
E PLURIBUS UNUM

Wisconsin Economic Development Association Inc.

TO: Members, Assembly Committee on Economic Development

FROM: Jim Hough, on behalf of
Wisconsin Economic Development Association

DATE: November 11, 2003

RE: **SUPPORT FOR AB 538**

The Wisconsin Economic Development Association (WEDA) strongly supports and respectfully urges a recommendation for passage of AB 538.

It is critically important that Wisconsin feeds the pipeline of business development to enhance the vitality of Wisconsin's future economy. More small businesses must be created by entrepreneurs and financed by small investors. Wisconsin needs: **more startup companies; more entrepreneurs; more investment to build our economic base; and, more opportunity for our educated youth.**

Capital and investment will flow where a better return can be realized. This legislation will create an environment in Wisconsin which rewards risk-taking at the individual level. This legislation will change the risk/reward ratio in Wisconsin to favor investment in new companies and ideas. These companies will be the basis of the next Wisconsin economy. This is a market driven proposal that relies upon the skill of the entrepreneur and the willingness of the individual investor, no state funds are put at risk.

The proposed legislation will target startup agricultural and manufacturing companies which are less than 10 years old. For investors in these companies, the proposal will: **reduce** the risk of investment by creating an investor tax credit of 20% of the first $100,000 invested; **increase** the potential reward based upon the success of the enterprise by eliminating state capital gains taxes on long-term investments; and, **compliment** existing and future venture capitalists and CAPCOs by creating and funding more and more viable startup companies.

P.O. Box 1230 Madison WI 53701 608-255-5666