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Details:

(FORM UPDATED: 07/12/2010)

**WISCONSIN STATE LEGISLATURE ...
PUBLIC HEARING - COMMITTEE RECORDS**

2007-08

(session year)

Senate

(Assembly, Senate or Joint)

**Committee on ... Commerce, Utilities and Rail
(SC-CUR)**

COMMITTEE NOTICES ...

- *Committee Reports ... CR*
- *Executive Sessions ... ES*
- *Public Hearings ... PH*
- *Record of Comm. Proceedings ... RCP*

INFORMATION COLLECTED BY COMMITTEE FOR AND AGAINST PROPOSAL

- *Appointments ... Appt*
- *Clearinghouse Rules ... CRule*
- *Hearing Records ... bills and resolutions*
(ab = Assembly Bill) (ar = Assembly Resolution) (ajr = Assembly Joint Resolution)
(sb = Senate Bill) (sr = Senate Resolution) (sfr = Senate Joint Resolution)
- *Miscellaneous ... Misc*



State of Wisconsin • DEPARTMENT OF REVENUE

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Jim Doyle
Governor

Roger M. Ervin
Secretary of Revenue

Senate Committee on Commerce, Utilities and Rail Hearing, December 20, 2007

SB 334 – Allocating Early Stage Seed and Angel Investment Credits (Senator Kanavas)

Description of Current Law and Proposed Change

Under this bill, the total amount of all early stage seed investment credits that may be claimed in any calendar year is increased from \$6 million to \$6.5 million and the total amount that may be claimed in all taxable years is increased from \$52.5 million to \$65 million. In addition, the total amount of all angel investment credits that may be claimed in any calendar year is increased from \$5.5 million to \$6.5 million and the total amount that may be claimed in all taxable years is increased from \$47.5 million to \$65 million.

Under current law, the Department of Commerce may certify businesses to receive Early Stage Seed and Angel investments if the business has fewer than 100 employees. Under this bill, the Department of Commerce must promulgate rules that give preference to businesses with less than 100 employees, but that allow the Department of Commerce to certify businesses with 100 employees or more and allow tax credits in lesser amounts for investments in such businesses. Additionally, under the bill the Department of Commerce may certify a business that is testing or producing a product at the time that business seeks certification.

Under current law, due to statutory limits on the amount of each credit that can be certified for all years combined, the total amount available to be certified would be exhausted by 2014 (assuming maximum credit certifications each year). Under SB 334 the early stage seed investment credit would be extended an additional year (to 2015) and the angel investment credit would be extended an additional two years (to 2016).

Fairness/Tax Equity

- Investors in Wisconsin businesses that are not certified would not be eligible for the credit.
- Wisconsin businesses that are not able to be certified may not be as attractive to investors compared to certified businesses.

Impact on Economic Development

- The bill provides greater incentives for investing in Wisconsin startup firms by increasing the amount of credit allowed and also by allowing product development and testing to be eligible activities.
- Qualified Wisconsin new business ventures will be better able to attract capital during the early stages of business activity, which will allow the business to grow.

Administrative Impact/Fiscal Effect

Changes to the Early Stage Seed and Angel Investment Credits program that were enacted in 2007 Act 20, need to be incorporated into this bill. Act 20 provided that a taxpayer does not include the amount of the early stage seed investment or angel investment tax credits in income. Therefore, the amendments made by sections 1, 4, 5, 7, 8, and 10 of this bill are not needed. In addition, sections 2, 3, 6, and 9 should be revised to reflect the increases in Act 20 of the amount of credit available each year and over the life of the program.

In addition, as it is currently drafted the bill will result in a decrease in the total amount available for all years for both the Early Stage Seed and Angel Investment credits compared to the amounts as increased in Act 20 which provided a total of \$100 million in credits combined (\$52.5 million for the Early Stage Seed and \$47.5 million for the Angel Investment), while the bill as currently drafted provides for a combined total of \$65 million for both credits.

The Department of Revenue's fiscal estimate is based on the assumption that the intent was to provide a combined total of \$130 million for both credits (\$65 million each). But because the draft mentions both credits in the Early Stage Seed subsections (sub (5b)) and does the same thing in the Angel Investment Sections (sub (5d)), the effect would be to limit the total for both credits to \$65 million combined. If this is not the author's intent, the bill would need to be amended to remove the references to the Angel Investment Credit in sub (5b) and remove the reference to the Early Stage Seed Credit in sub (5d).

Fiscal Effect

Assuming that the author's intent was to provide a total of \$65 million for all years for each credit, the fiscal effect of the bill would be a reduction in GPR revenue of \$800,000 in FY 2008, and a reduction in GPR revenue of \$1.4 million in FY 2009. The fiscal effect in a given year could be reduced to the extent that the Department of Commerce certifies less than the annual maximum statutory amount in that year.

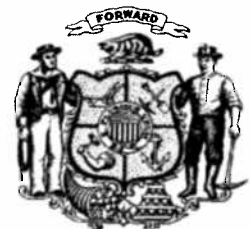
Prepared by: Michael Oakleaf, (608) 261-5173

December 20, 2007

MO:kjg



WISCONSIN STATE LEGISLATURE



Angel Investment Tax Credit

Senate Bill 293 and Senate Bill 334

Senate Committee on Commerce, Utilities and Rail

Thursday, December 20, 2007

- In 2004, with bi-partisan support, the Legislature passed and the governor signed Wisconsin 2003 Act 255, which created new tax credit, grant and loan programs administered by the Wisconsin Department of Commerce.
- Act 255 included the Angel and Early Stage Seed Investment Tax Credit.
- The Angel Investment Tax Credit has been very successful, improving capital investment and technological entrepreneurship in Wisconsin and helping the state's emerging high-tech, high-growth businesses.
- **There are currently 79 businesses qualified for tax credits.**
- Out of the \$3 million in credits available each year since Act 255 became law, there are:
 - **\$0 in credits remaining for 2005**
 - \$578,071 in credits remaining for 2006
 - \$2,121,425 in credits remaining for 2007
- Since these credits have been available, several angel investment groups have been created in Wisconsin to help investors take advantage of the tax credits.
- A modest increase in the amount of angel credits available each year was included in this year's budget, but Senate Bill 293 proposes doubling the original (pre-budget figure) to really provide fuel for the high-tech development boom going on in our state.
- Since the passage of Act 255, several changes to improve the program have been proposed (Senate Bill 334), including:
 - Combining the limits of how much angel and venture capital companies can receive, but not expanding either, to allow for more flexibility when raising capital
 - Allowing the Department of Commerce to certify businesses with 100 employees or more, allowing tax credits in lesser amounts for investments in such businesses and giving preference to companies under 100 employees.
 - In addition, the bill allows Commerce to certify a business that is testing or producing a product at the time that business seeks certification.
 - Increasing the amount of tax credit eligible angel investment a certified company can receive from \$1M to \$4M to put angel investments on an even playing field with venture capital investment dollars (Committee Amendment).