

### Fiscal Estimate - 2013 Session

Original     
  Updated     
  Corrected     
  Supplemental

<b>LRB Number</b> <b>13-3854/1</b>	<b>Introduction Number</b> <b>AB-0761</b>
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**Description**  
 Allocation of unused early stage seed investment credits

**Fiscal Effect**

**State:**

<input type="checkbox"/> No State Fiscal Effect <input type="checkbox"/> Indeterminate <input type="checkbox"/> Increase Existing Appropriations <input type="checkbox"/> Decrease Existing Appropriations <input type="checkbox"/> Create New Appropriations	<input type="checkbox"/> Increase Existing Revenues <input checked="" type="checkbox"/> Decrease Existing Revenues	<input checked="" type="checkbox"/> Increase Costs - May be possible to absorb within agency's budget <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Decrease Costs
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**Local:**

<input type="checkbox"/> No Local Government Costs <input type="checkbox"/> Indeterminate 1. <input type="checkbox"/> Increase Costs <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory 2. <input type="checkbox"/> Decrease Costs <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	3. <input type="checkbox"/> Increase Revenue <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory 4. <input type="checkbox"/> Decrease Revenue <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	<b>5. Types of Local Government Units Affected</b> <input type="checkbox"/> Towns <input type="checkbox"/> Village <input type="checkbox"/> Cities <input type="checkbox"/> Counties <input type="checkbox"/> Others <input type="checkbox"/> School Districts <input type="checkbox"/> WTCS Districts
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<b>Fund Sources Affected</b>	<b>Affected Ch. 20 Appropriations</b>
<input type="checkbox"/> GPR <input type="checkbox"/> FED <input type="checkbox"/> PRO <input type="checkbox"/> PRS <input type="checkbox"/> SEG <input type="checkbox"/> SEGS	

<b>Agency/Prepared By</b> DOR/ Michael Oakleaf (608) 261-5173	<b>Authorized Signature</b> Michael Wagner (608) 266-6785	<b>Date</b> 2/12/2014
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## Fiscal Estimate Narratives

DOR 2/12/2014

LRB Number	13-3854/1	Introduction Number	AB-0761	Estimate Type	Original
<b>Description</b> Allocation of unused early stage seed investment credits					

### Assumptions Used in Arriving at Fiscal Estimate

Under current law, the Wisconsin Economic Development Corporation (WEDC) may certify for Early Stage Seed Investment Tax Credits investors who invest funds with a certified fund manager. The fund manager must invest the funds in qualified new business ventures. The credit is equal to 25% of the amount invested with the certified fund manager. WEDC is authorized to certify up to \$20.5 million in early stage seed credits per calendar year. The credits may be claimed against individual income taxes, corporate income and franchise taxes, and insurance premium fees.

Under the bill, beginning in 2014 WEDC may allocate at least 25%, but no more than 50%, of any unallocated Early Stage Seed credits to certified investment fund managers so that the fund managers may allocate the credits to persons who make investments in certified businesses for which early stage seed investment credits may be claimed. A fund manager who receives the unallocated credits must allocate the entire amount to investors and no investor may claim the credits unless the total amount committed for investment equals or exceeds 100 percent of the amount of the credits allocated to the fund manager.

Under the bill, the fund manager must pay 50 percent of all distributions from the investments as a return of capital, or a return on capital, to the state, less the amount of certain fees and costs.

Under the bill WEDC must notify the Department of Revenue (DOR) of all credits allocated to fund managers, and the fund managers must notify DOR and WEDC of all credits allocated to investors.

Under the bill, a fund manager who receives unallocated Early Stage Seed credits must report to WEDC the subsequent allocation of those credits no later than 10 days after the fund manager allocates the credits to investors. WEDC then submits the report to the joint committee on finance. The fund manager must also submit an annual report to WEDC that contains the name of each business receiving an investment and the investment amount, the number of jobs created or retained by the business, and any other information required by WEDC. WEDC also submits that report to the joint committee on finance.

### Fiscal Estimate

The bill would affect revenue in two ways. First, the additional credit allocations under the bill would result in a reduction in income and franchise taxes and/or insurance premium fees. Second, the requirement that the fund manager return 50% of distributions, less certain fees and costs, would result in an increase in revenue.

### Additional Credits

Based on information from WEDC, annually an average of \$16.4 million of the total \$20.5 million in Early Stage Seed credits has been unallocated. The bill authorizes WEDC to reallocate at least 25% and no more than 50% of the unallocated credits, which would allow for a range of \$4.1 million (25% of \$16.4 million) to \$8.2 million (50% of \$16.4 million) in credit to be reallocated annually. Based on a review of tax returns that claimed the Early Stage Seed Credit, approximately 74% of the credit claimed is used in a year. Assuming that similar amounts of credit are unallocated in future years, and assuming that a similar percentage of credit is used to offset taxes, this would result in a reduction of income and franchise tax revenue and/or insurance premium fees of an estimated \$750,000 (25% reallocated) to \$1.5 million (50% reallocated) in FY 2014 and \$3.2 million (25% reallocated) to \$6.5 million (50% reallocated) in FY 2015. If the bill is enacted after the June 15, 2014 estimated payment due date, the fiscal effects shown for FY 2014 would be experienced in (added to) FY 2015.

### Payments of Distributions

Cambridge Associates LLC (CA) produces benchmarks for venture capital funds that are widely used as standards in the venture capital industry. Based on data from the September 30, 2013 report by CA entitled "U.S. Venture Capital Index and Selected Benchmarks" the median amount of time for a venture fund to

receive distributions equal to 100% of the amount invested is fifteen years, with no significant distributions in the first three years of the fund. Assuming that distributions for the funds that receive investments under the bill follow a similar pattern as that described in the CA report, the fund would distribute an amount equal to the amount invested over a twelve year period beginning in the fourth year after the investment. Assuming that the fees and other costs reduce the percentage of distributions that are returned to the state from 50% to 40% of the amount invested, the fiscal effect of this provision is estimated to be minimal in FY 2014 and FY 2015.

The fiscal effects shown above could be higher (lower) to the extent that there is more (less) unallocated credit available to be reallocated. In addition, the fiscal effect would be lower if in any year or years WEDC does not reallocate credits.

### **Long-Range Fiscal Implications**

For fiscal years 2016 through 2029, the fiscal affect due to the additional credits allocated are estimated to be the following amounts:

FY: (25% reallocation / 50% reallocation)

FY 2016: -\$3.9 million / -\$7.8 million

FY 2017: -\$4.0 million / -\$8.0 million

FY 2018 through FY 2029: -\$4.1 million per year / -\$8.2 million per year

For fiscal years 2016 through 2029, the fiscal effect due to distribution repayment to the state:

FY: (25% reallocation / 50% reallocation)

FY 2016: minimal / minimal

FY 2017: minimal / minimal

FY 2018: \$171,000 / \$342,000

FY 2019: \$307,500 / \$615,000

FY 2020: \$444,000 / \$888,000

FY 2021: \$581,000 / \$1.2 million

FY 2022: \$718,000 / \$1.4 million

FY 2023: \$854,000 / \$1.7 million

FY 2024: \$991,000 / \$2.0 million

FY 2025: \$1.1 million / \$2.3 million

FY 2026: \$1.3 million / \$2.5 million

FY 2027: \$1.4 million / \$2.8 million

FY 2028: \$1.5 million / \$3.1 million

FY 2029: \$1.7 million / \$3.3 million

## Fiscal Estimate Worksheet - 2013 Session

Detailed Estimate of Annual Fiscal Effect

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  Updated     
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<b>LRB Number</b> 13-3854/1		<b>Introduction Number</b> AB-0761	
<b>Description</b> Allocation of unused early stage seed investment credits			
<b>I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):</b>			
<b>II. Annualized Costs:</b>		<b>Annualized Fiscal Impact on funds from:</b>	
		Increased Costs	Decreased Costs
<b>A. State Costs by Category</b>			
State Operations - Salaries and Fringes	\$		\$
(FTE Position Changes)			
State Operations - Other Costs			
Local Assistance			
Aids to Individuals or Organizations			
<b>TOTAL State Costs by Category</b>	<b>\$</b>		<b>\$</b>
<b>B. State Costs by Source of Funds</b>			
GPR			
FED			
PRO/PRS			
SEG/SEG-S			
<b>III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)</b>			
		Increased Rev	Decreased Rev
GPR Taxes		\$	\$
GPR Earned			
FED			
PRO/PRS			
SEG/SEG-S			
<b>TOTAL State Revenues</b>		<b>\$</b>	<b>\$</b>
<b>NET ANNUALIZED FISCAL IMPACT</b>			
		<u>State</u>	<u>Local</u>
NET CHANGE IN COSTS		\$See Text	\$
NET CHANGE IN REVENUE		\$See Text	\$
<b>Agency/Prepared By</b>		<b>Authorized Signature</b>	<b>Date</b>
DOR/ Michael Oakleaf (608) 261-5173		Michael Wagner (608) 266-6785	2/12/2014