HOWARD MARKLEIN

STATE SENATOR • 17TH SENATE DISTRICT

September 12, 2019
Assembly Committee on Ways & Means
Testimony on Assembly Bill 225

Thank you Chair Macco and committee members for hearing Assembly Bill 225 (AB 225), which makes changes to the statutes for the Early Stage Seed Investment credit. The credit was originally created by 2003 Wisconsin Act 255, and took effect on January 1, 2005.

AB 225 modifies parts of the state tax code by allowing a partnership, limited liability company, or tax-option corporation to allocate the investment tax credit at the entity level rather than the claimant level. This aligns the tax code for investments made into a Qualified New Business Venture by an insurance company with other types of eligible investors.

The purpose of the credit, when it was originally created, was to encourage investment in venture capital funds that help start-up companies begin or expand operations. Investment in these new companies has a higher degree of risk, and the credits are intended to mitigate some of the risk for investors. Under the original bill, the credits could be applied to corporate income taxes, individual income taxes or trust income taxes.

Over the years, amendments were made to the original language to improve the effectiveness of the credit. In the 2009 session there were two amendments circulating at the same time, but they were adopted separately. One allowed the credits to be applied to the premium and gross investment taxes, which gave insurance companies an opportunity to make these investments. The other change allowed a special allocation of the credits at the entity level, rather than for the individual investors.

The special allocation language was drafted off of the original language that took effect in 2005, so it did not include the premium and gross investment taxes that were added in 2009. This has the negative effect of making an out-of-state insurance company that wants to invest in a Wisconsin based venture capital fund ineligible for the credits.

This proposal has bipartisan support and the fiscal estimate prepared by WEDC indicated that there is no state fiscal effect.

I would like to thank our Assembly colleagues Representatives Zimmerman and Fields for working with me on this legislation, and Sen. Taylor has been supportive as well.

Thank you again for hearing AB 225, and your timely action on this proposal.

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WISCONSIN TECHNOLOGY COUNCIL

September 12, 2019

TO: Assembly Committee on Ways and Means
MEMBERS: Chair Macco; Vice-chair Wittke; and Reps. Kerkman, Brooks, Kulp, Petersen, Dittrich, Ramthun, Riemer, Ohnstad, Haywood and McGuire
FROM: Tom Still, president, Wisconsin Technology Council
RE: Assembly Bill 225 and companion Senate Bill 208

Thank you for taking the time to hear from me today regarding Assembly Bill 225, which is a seemingly technical piece of legislation but nonetheless important when it comes to positioning Wisconsin's early stage economy.

The bill aims to clarify Wisconsin's successful Act 255 investor tax credit law by matching language pertaining to how the credits can be used, especially by insurance companies that may invest in young companies.

Act 255 permits a taxpayer to apply the tax credit against several types of tax liabilities. When this bipartisan law took effect in 2005, it was corporate income taxes, individual income taxes, and trust income taxes. These are three different sections of the statutes. In each section there is identical language about how the credits can be used.

In 2009, the Legislature added gross premium taxes, which are a tax on out-of-state insurance companies operating in the state. It works like a sales tax on the policies. The goal of expanding the credit was to create an *incentive* for out-of-state insurance companies to invest in Wisconsin companies, either directly or by investing in venture capital funds.

Because language in the 2009 budget repair bill was inadvertently left out in the full budget bill later that same year, the section allowing credits to be applied to gross premium taxes was omitted. This bill would tie up the loose ends.

Passage of SB 208 will not have a fiscal effect. It will neither increase nor decrease the amount of credits available ... which stands at a maximum of $30 million per year.

Rather, passage will remove a disincentive for out-of-state as well as some in-state insurance companies to invest more in Wisconsin. That's where I want to spend a little more time to explain why that is important.

Despite progress in recent years, Wisconsin still has a shortage of venture capital. Our state has nearly 2 percent of the U.S. population and GNP, but only 0.27 percent of the nation's venture capital assets under management.

We need more in-state venture capital firms, to be sure, but also need more out-of-state investors in Wisconsin companies.

Net investment into Wisconsin from outside the state is a good thing. California's success is in part because their VC industry was a *net importer* of capital from around the world. They couldn't have done it with only capital from inside the state. We are a *net exporter* of capital. We need to broaden the participation here and attract others from the outside.

Insurance companies have been a larger factor in Wisconsin's early stage investment scene in recent years. Nine investments involving four insurance company "in-house funds" were made in the last two years; at least two such investments have been made in 2019, according to data collected by the Wisconsin Technology Council.

Insurance companies are also limited partners in independent venture capital funds in Wisconsin, where investment dollars are spread across all of a fund's deals.

This is in keeping with national and even international trends. Venture funding for insurance and insure-tech companies hit all-time highs in 2018, according to Crunchbase data, with both global and U.S. totals reaching record levels. A space that once attracted a few hundred million in venture investment is now in the multiple billions.

Nationwide, insurance and insure-tech startups raised just over $2.5 billion in 2018, more than double 2017 levels.

The trend of incumbent insurance companies launching or scaling up venture arms started a few years ago, and it's been accelerating. It's part of the larger trend of corporate venture capital.

Today, there are about 30 insurance companies active nationally in the asset class, including American Family Insurance, Northwestern Mutual, WEA Trust and CUNA Mutual in Wisconsin. Other out-of-state firms are potential investors in emerging Wisconsin companies, as well, and have done so in a few cases.

Some of the big insurers are increasing their investment pools in response to market opportunities. This year, German insurance giant Allianz increased the size of its corporate venture capital arm, Allianz X, to around $1.1 billion, more than double its initial size. American Family recently increased its fund by about $200 million.

In short, there is more "dry powder" to invest in the sector – and we should welcome it.

The market is on its way up and Wisconsin could seize an important advantage by making sure its statutes align as intended, without adding any burden to the taxpayer.

You will hear later from Revenue Secretary Peter Barca on this bill. The Office of the Commissioner of Insurance will submit favorable testimony, and the Wisconsin Economic Development Corp. has indicated its support. Representatives of the insurance industry are supportive, as well. We know of no opposition.

We urge you to pass AB 225 and help to better position Wisconsin to attract investment from outside the state to help grow young companies here.

###

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Seed Investor

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We’re a young company with big ambitions, you’ll be trusted with a lot of responsibility and ownership. While this can be daunting for some, it can also be liberating and empowering for others. You’ll have absolute freedom to voice your opinions and contribute in ways that you think is best.

You'll work on technology impacting fleets worldwide

We are working with some of the largest fleets and some of the most recognizable companies to transform how fleets manage ongoing maintenance. The work you do will reshape how fleets, evaluate, and buy services.

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Tony Evers
Governor

Peter W. Barca
Secretary of Revenue

Date: Thursday, September 12, 2019

To: Assembly Committee on Ways and Means

Members: Reps. Macco, Wittke, Kerkman, Brooks, Kulp, Petersen, Dittrich, Ramthun, Riemer, Ohnstad, Haywood, McGuire

From: Department of Revenue Secretary Peter Barca

Re: Assembly Bill 225

Thank you Chairman Macco and Members of the Assembly Ways and Means Committee for hosting a hearing on AB 225 today. I am testifying for information today to provide background on the statute changes requested.

AB 225 modifies the Early Stage Seed Investment credit by allowing a Limited Liability Company, a partnership, or a tax-option corporation to allocate the investment credit at the entity level rather than the claimant level.

This would make the state tax code for Qualified New Business Venture (QNBV) investments by insurance companies align with other eligible investors.
In 2003, Wisconsin Act 255 created the early stage seed investment tax credit and allowed it to be claimed under individual income and corporate income and franchise taxes. The goal was to encourage entrepreneurship and investment in early-stage Wisconsin businesses.

Investors receive a Wisconsin income tax credit of 25% of their eligible equity investment.

To achieve QNBV certification, companies must meet the following criteria, among others:

- Headquartered in Wisconsin
- At least 51 percent of employees based in the state
- Have fewer than 100 employees
- In operation for 10 consecutive years or less
- Offer significant potential for increasing jobs or increasing capital investment in Wisconsin
- Have not received aggregate private equity investment in cash of more than $10 million

2009 Wisconsin Act 2 allowed insurance companies to claim the early stage seed investment credit through the gross premiums tax. The credit could be claimed against state premiums taxes and would equal 25 percent of the insurer's investment paid to a fund manager that invests in certified businesses.

Modifications to the credit in 2009 also resulted in out-of-state insurance companies that want to invest in a Wisconsin based venture capital fund, being ineligible for the credits. The bill authors believe this was an unintended consequence of having two amendments circulating simultaneously but adopted separately during the 2009 session.

A recent example of this issue occurred when Western National Mutual, a Minnesota based insurance company, was told by OCI in a 2018 review that they were not able to use QNBV credits because statutory language governing the use of tax credits by insurance companies was different that the credits used by individual income and corporate income and franchise taxpayers. Western National Mutual indicated this undermines their incentive to invest in Wisconsin and asked for tax code parity. We have been informed by various parties that this program would make a difference in attracting this type of investment.

The statutory maximum amount of money allocated for the early seed investment credit and the angel investment credit is $30 million dollars per calendar year. WEDC historically has not reached the $30 million statutory cap for these combined credits. According to the Office of the Commissioner of Insurance, the bill is not expected to have a significant fiscal impact on collections of gross premium taxes.
Thank you for the opportunity to come before you today. I would be happy to answer any questions from the committee at this time.

State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Tony Evers, *Governor*
Mark V. Afable, *Commissioner*

Wisconsin.gov

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Date: September 10, 2019

To: Representative John Macco, Chair
Representative Robert Wittke, Vice-Chair
Members of the Assembly Committee on Ways and Means

From: Nathan Houdek, Deputy Commissioner
Office of the Commissioner of Insurance

Subject: OCI Fiscal Estimate on Assembly Bill 225/Senate Bill 208 Relating to Allocation of Early Stage Seed Investment Credit to Offset Taxes Imposed on Insurers.

The Office of the Commissioner of Insurance (OCI) submits the following analysis for your consideration regarding Assembly Bill 225/Senate Bill 208 related to allocation of early stage seed investment credit to offset taxes imposed on insurers. Although OCI was not requested to complete a formal fiscal note for this legislation, our office felt the following information would be helpful to the committee.

Current statutory law limits an insurer to 25 percent of its investments paid to a fund manager that are invested in a business certified investment. In the last five years, only two insurers have claimed the early stage seed investment credit, American Family Life Insurance Company domiciled in Wisconsin and Western National Mutual Insurance Company domiciled in Minnesota. The chart below outlines the filings for the early stage seed investment credit over the last five years for the two companies. OCI does not have knowledge of any other insurers who have attempted to claim the early stage seed investment credit and were limited or denied.

This legislation would have no fiscal effect on OCI and currently has minimal impact on premium tax revenue collected by the State of Wisconsin on insurers domiciled outside of Wisconsin. The legislation's impact on future premium tax collections are indeterminate because OCI does not have information on how much insurers invest in business certified investments.

Nationally, Crunchbase News reported that \$2.5 billion was invested in U.S. insurance and insurtech startups in 2018. Attracting investment capital to Wisconsin is an important part of a comprehensive economic development strategy, and OCI supports insurers making financially-responsible investments in Wisconsin communities and helping to create new companies and family-supporting jobs.

Early Stage Seed Investment Credits Taken in the Last Five Filing Years

Filing Year	Company Name	State of Domicile	Amount
2014	American Family Life Insurance Company	WI	*
	Western National Mutual Insurance Company	MN	109,799
2015	American Family Life Insurance Company	WI	898,873
	Western National Mutual Insurance Company	MN	295,237
2016	American Family Life Insurance Company	WI	1,331,166
	Western National Mutual Insurance Company	MN	108,836
2017	American Family Life Insurance Company	WI	617,500
	Western National Mutual Insurance Company	MN	11,302
2018	American Family Life Insurance Company	WI	512,500
	Western National Mutual Insurance Company	MN	22,367

The amounts typed in red indicates those filing years that the limitation of the credit was enforced on Western National Mutual Insurance Company. If we allowed the full credit amount allocated to the company by the fund manager the credit amounts would have been $70,016 in filing year 2017. The impact couldn't be determined for 2018 as the fund manager allocated credits on the method accepted for the 2017 filing.
(s. 76.636, Wis. Stat. limits the credit to 25% of the investment paid to a fund manager that is invested in a business certified as an early stage seed investment)

*Disallowed a credit for $216,250 in 2014 as it wasn't in AFLIC's name; however, obtained enough information to allow it to be taken in 2015 (included in the $898,873 credit amount)