



State of Wisconsin
2003 - 2004 LEGISLATURE

LRB-3266/1
JK/MES/RJM:kmg&jld:ch&jf

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2003 BILL

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and qualified
new business^{SS}
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Gen. Cat.

1 AN ACT to amend 71.05 (6) (a) 15., 71.21 (4), 71.26 (2) (a), 71.34 (1) (g), 71.45 (2)
2 (a) 10. and 77.92 (4); and to create 71.05 (24), 71.07 (5d), 71.10 (4) (gx), 71.28
3 (5d), 71.30 (3) (eop), 71.47 (5d), 71.49 (1) (eop) and 560.03 (24) to (27) of the
4 statutes; relating to: creating a qualified new business venture tax credit and
5 a capital gains tax exemption regarding investments in certified venture
6 capital funds, requiring a study of new Wisconsin businesses, facilitating the
7 development of certain investor networks, and granting rule-making
8 authority.

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

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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

or in a qualified new business venture
(1N)

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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.

The people of the state of Wisconsin, represented in senate and assembly, do enact as follows:

1 **SECTION 1.** 71.05 (6) (a) 15. of the statutes is amended to read:

2 71.05 (6) (a) 15. The amount of the credits computed under s. 71.07 (2dd), (2de),
3 (2di), (2dj), (2dL), (2dm), (2dr), (2ds), (2dx), (3g), and (3s), and (5d) and not passed
4 through by a partnership, limited liability company, or tax-option corporation that
5 has added that amount to the partnership’s, company’s, or tax-option corporation’s
6 income under s. 71.21 (4) or 71.34 (1) (g).

7 **SECTION 2.** 71.05 (24) of the statutes is created to read:

8 71.05 (24) INCOME TAX DEFERRAL; INVESTMENTS IN CERTAIN VENTURE CAPITAL
9 FUNDS AND QUALIFIED NEW BUSINESS VENTURES
10 (a) In this subsection:

- 11 1. “Claimant” means an individual; an individual partner or member of a
12 partnership, limited liability company, or limited liability partnership; or an
13 individual shareholder of a tax-option corporation.
- 14 2. “Financial institution” has the meaning given in s. 69.30 (1) (b).
- 15 3. “Long-term capital gain” means the gain realized from the sale of any asset
held more than one year.

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1 (b) A claimant may subtract from federal adjusted gross income any amount
2 of a long-term capital gain or any gain realized from the sale of an asset that is an
3 investment in a venture capital fund that is certified under s. 560.03 (27) if the
4 claimant does all of the following: *a qualified new business venture that is certified under s. 560.03(26) or*

5 1. Immediately deposits the gain in a segregated account in a financial
6 institution.

7 2. Within 90 days after the sale of the asset that generated the gain, purchases
8 another capital asset, which is an investment in a venture capital fund that is
9 certified under s. 560.03 (27), of equal or greater value using all of the proceeds in
10 the account described under subd. 1.

11 3. After purchasing a capital asset as described under subd. 2., immediately
12 notifies the department, on a form prepared by the department, that the claimant
13 will not declare on the claimant's income tax return the gain described under subd.
14 1. because the claimant has reinvested the capital gain as described under subd. 2.

15 (c) The basis of the purchased capital asset described in par. (b) 2. shall be
16 calculated by subtracting the gain described in par. (b) 1. from the cost of the
17 purchased asset described in par. (b) 2.

18 (d) If a claimant defers the payment of income taxes on a capital gain under this
19 subsection, the claimant may not use the gain described under par. (b) 1. to net
20 capital gains and losses, as described under sub. (10) (c).

21 **SECTION 3.** 71.07 (5d) of the statutes is created to read:

22 **71.07 (5d) QUALIFIED NEW BUSINESS VENTURE CREDIT.** (a) In this subsection:

23 1. "Broker-dealer" has the meaning given in s. 551.02 (3).

24 2. "Claimant" means a person who files a claim under this subsection.

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1 3. “Qualified new business venture” means a business that is certified under
2 s. 560.03 (26).

3 (b) Subject to the limitations provided in this subsection and in s. 560.03 (26),
4 a claimant may claim as a credit against the tax imposed under s. 71.02, up to the
5 amount of those taxes, any of the following:

6 1. An amount equal to 20 percent of the claimant’s investment in a qualified
7 new business venture in the taxable year, except that if the claimant’s investment
8 exceeds \$100,000 in the taxable year the claimant may claim 20 percent of \$100,000
9 plus 10 percent of the amount of the investment that exceeds \$100,000.

10 2. If the claimant is a broker–dealer, an amount equal to 10 percent of the first
11 \$500,000 raised in an offering of a qualified new business venture in the taxable year.

12 (c) The carry–over provisions of s. 71.28 (4) (e) and (f), as they apply to the credit
13 under s. 71.28 (4), apply to the credit under this subsection.

14 (d) Partnerships, limited liability companies, and tax–option corporations may
15 not claim the credit under this subsection, but the eligibility for, and the amount of,
16 the credit are based on the amounts described under par. (b) that are attributable to
17 their business operations. A partnership, limited liability company, or tax–option
18 corporation shall compute the amount of credit that each of its partners, members,
19 or shareholders may claim and shall provide that information to each of them.
20 Partners, members of limited liability companies, and shareholders of tax–option
21 corporations may claim the credit in proportion to their ownership interest.

22 (e) Section 71.28 (4) (g) and (h), as it applies to the credit under s. 71.28 (4),
23 applies to the credit under this subsection.

24 **SECTION 4.** 71.10 (4) (gx) of the statutes is created to read:

25 71.10 (4) (gx) Qualified new business venture credit under s. 71.07 (5d).

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1 **SECTION 5.** 71.21 (4) of the statutes is amended to read:

2 71.21 (4) Credits computed by a partnership under s. 71.07 (2dd), (2de), (2di),
3 (2dj), (2dL), (2dm), (2ds), (2dx), (3g), ~~and (3s)~~, and (5d) and passed through to
4 partners shall be added to the partnership's income.

5 **SECTION 6.** 71.26 (2) (a) of the statutes is amended to read:

6 71.26 (2) (a) *Corporations in general.* The "net income" of a corporation means
7 the gross income as computed under the Internal Revenue Code as modified under
8 sub. (3) minus the amount of recapture under s. 71.28 (1di) plus the amount of credit
9 computed under s. 71.28 (1), (3), (4), and (5) plus the amount of the credit computed
10 under s. 71.28 (1dd), (1de), (1di), (1dj), (1dL), (1dm), (1ds), (1dx), ~~and (3g)~~, and (5d)
11 and not passed through by a partnership, limited liability company, or tax-option
12 corporation that has added that amount to the partnership's, limited liability
13 company's, or tax-option corporation's income under s. 71.21 (4) or 71.34 (1) (g) plus
14 the amount of losses from the sale or other disposition of assets the gain from which
15 would be wholly exempt income, as defined in sub. (3) (L), if the assets were sold or
16 otherwise disposed of at a gain and minus deductions, as computed under the
17 Internal Revenue Code as modified under sub. (3), plus or minus, as appropriate, an
18 amount equal to the difference between the federal basis and Wisconsin basis of any
19 asset sold, exchanged, abandoned, or otherwise disposed of in a taxable transaction
20 during the taxable year, except as provided in par. (b) and s. 71.45 (2) and (5).

21 **SECTION 7.** 71.28 (5d) of the statutes is created to read:

22 71.28 (5d) **QUALIFIED NEW BUSINESS VENTURE CREDIT.** (a) In this subsection:

23 1. "Broker-dealer" has the meaning given in s. 551.02 (3).

24 2. "Claimant" means a person who files a claim under this subsection.

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1 3. “Qualified new business venture” means a business that is certified under
2 s. 560.03 (26).

3 (b) Subject to the limitations provided in this subsection and in s. 560.03 (26),
4 a claimant may claim as a credit against the tax imposed under s. 71.23, up to the
5 amount of those taxes, any of the following:

6 1. An amount equal to 20 percent of the claimant’s investment in a qualified
7 new business venture in the taxable year, except that if the claimant’s investment
8 exceeds \$100,000 in the taxable year the claimant may claim 20 percent of \$100,000
9 plus 10 percent of the amount of the investment that exceeds \$100,000.

10 2. If the claimant is a broker–dealer, an amount equal to 10 percent of the first
11 \$500,000 raised in an offering of a qualified new business venture in the taxable year.

12 (c) The carry–over provisions of sub. (4) (e) and (f), as they apply to the credit
13 under sub. (4), apply to the credit under this subsection.

14 (d) Partnerships, limited liability companies, and tax–option corporations may
15 not claim the credit under this subsection, but the eligibility for, and the amount of,
16 the credit are based on the amounts described under par. (b) that are attributable to
17 their business operations. A partnership, limited liability company, or tax–option
18 corporation shall compute the amount of credit that each of its partners, members,
19 or shareholders may claim and shall provide that information to each of them.
20 Partners, members of limited liability companies, and shareholders of tax–option
21 corporations may claim the credit in proportion to their ownership interest.

22 (e) Subsection (4) (g) and (h), as it applies to the credit under sub. (4), applies
23 to the credit under this subsection.

24 **SECTION 8.** 71.30 (3) (eop) of the statutes is created to read:

25 71.30 (3) (eop) Qualified new business venture credit under s. 71.28 (5d).

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1 **SECTION 9.** 71.34 (1) (g) of the statutes is amended to read:

2 71.34 (1) (g) An addition shall be made for credits computed by a tax-option
3 corporation under s. 71.28 (1dd), (1de), (1di), (1dj), (1dL), (1dm), (1ds), (1dx), (3), and
4 (3g), and (5d) and passed through to shareholders.

5 **SECTION 10.** 71.45 (2) (a) 10. of the statutes is amended to read:

6 71.45 (2) (a) 10. By adding to federal taxable income the amount of credit
7 computed under s. 71.47 (1dd) to (1dx) and (5d) and not passed through by a
8 partnership, limited liability company or tax-option corporation that has added that
9 amount to the partnership's, limited liability company's or tax-option corporation's
10 income under s. 71.21 (4) or 71.34 (1) (g) and the amount of credit computed under
11 s. 71.47 (1), (3), (4) and (5).

12 **SECTION 11.** 71.47 (5d) of the statutes is created to read:

13 71.47 (5d) **QUALIFIED NEW BUSINESS VENTURE CREDIT.** (a) In this subsection:

14 1. "Broker-dealer" has the meaning given in s. 551.02 (3).

15 2. "Claimant" means a person who files a claim under this subsection.

16 3. "Qualified new business venture" means a business that is certified under
17 s. 560.03 (26).

18 (b) Subject to the limitations provided in this subsection and in s. 560.03 (26),
19 a claimant may claim as a credit against the tax imposed under s. 71.43, up to the
20 amount of those taxes, any of the following:

21 1. An amount equal to 20 percent of the claimant's investment in a qualified
22 new business venture in the taxable year, except that if the claimant's investment
23 exceeds \$100,000 in the taxable year the claimant may claim 20 percent of \$100,000
24 plus 10 percent of the amount of the investment that exceeds \$100,000.

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1 2. If the claimant is a broker–dealer, an amount equal to 10 percent of the first
2 \$500,000 raised in an offering of a qualified new business venture in the taxable year.

3 (c) The carry–over provisions of s. 71.28 (4) (e) and (f), as they apply to the credit
4 under s. 71.28 (4), apply to the credit under this subsection.

5 (d) Partnerships, limited liability companies, and tax–option corporations may
6 not claim the credit under this subsection, but the eligibility for, and the amount of,
7 the credit are based on the amounts described under par. (b) that are attributable to
8 their business operations. A partnership, limited liability company, or tax–option
9 corporation shall compute the amount of credit that each of its partners, members,
10 or shareholders may claim and shall provide that information to each of them.
11 Partners, members of limited liability companies, and shareholders of tax–option
12 corporations may claim the credit in proportion to their ownership interest.

13 (e) Section 71.28 (4) (g) and (h), as it applies to the credit under s. 71.28 (4),
14 applies to the credit under this subsection.

15 **SECTION 12.** 71.49 (1) (eop) of the statutes is created to read:

16 71.49 (1) (eop) Qualified new business venture credit under s. 71.47 (5d).

17 **SECTION 13.** 77.92 (4) of the statutes is amended to read:

18 77.92 (4) “Net business income”, with respect to a partnership, means taxable
19 income as calculated under section 703 of the Internal Revenue Code; plus the items
20 of income and gain under section 702 of the Internal Revenue Code, including taxable
21 state and municipal bond interest and excluding nontaxable interest income or
22 dividend income from federal government obligations; minus the items of loss and
23 deduction under section 702 of the Internal Revenue Code, except items that are not
24 deductible under s. 71.21; plus guaranteed payments to partners under section 707
25 (c) of the Internal Revenue Code; plus the credits claimed under s. 71.07 (2dd), (2de),

BILL**SECTION 13**

1 (2di), (2dj), (2dL), (2dm), (2dr), (2ds), (2dx), and (3g), and (3s), and (5d); and plus or
2 minus, as appropriate, transitional adjustments, depreciation differences, and basis
3 differences under s. 71.05 (13), (15), (16), (17), and (19); but excluding income, gain,
4 loss, and deductions from farming. “Net business income”, with respect to a natural
5 person, estate, or trust, means profit from a trade or business for federal income tax
6 purposes and includes net income derived as an employee as defined in section 3121
7 (d) (3) of the Internal Revenue Code.

8 **SECTION 14.** 560.03 (24) to (27) of the statutes are created to read:

9 **560.03 (24)** In cooperation with the department of financial institutions and
10 the Board of Regents of the University of Wisconsin System, annually conduct and
11 publish the results of a study of Wisconsin businesses to determine new business
12 formation trends and identify obstacles faced by new Wisconsin businesses and areas
13 where changes in governmental policy may satisfy the needs of new Wisconsin
14 businesses. As part of the study, the department of commerce shall conduct a survey
15 of Wisconsin businesses.

16 **(25)** In cooperation with the department of financial institutions and the Board
17 of Regents of the University of Wisconsin System, provide education and other
18 support to facilitate the development networks of investors that review new
19 businesses or proposed new businesses for potential investment.

20 **(26)** Certify businesses as qualified new business ventures for purposes of ss.
21 71.07 (5d), 71.28 (5d), and 71.47 (5d). The department shall promulgate rules for the
22 administration of this subsection. The rules shall require a business desiring
23 certification to submit an application to the department. The department shall
24 maintain a list of businesses certified under this subsection and shall permit public
25 access to the list through the department’s Internet website. The department shall

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1 notify the department of revenue of every business certified under this subsection
2 and the date on which any such business is decertified. A business may be certified
3 under this subsection, and may maintain such certification, only if the business
4 satisfies all of the following conditions:

5 (a) It has its headquarters in this state.

6 (b) At least 51 percent of the employees employed by the business are employed
7 in this state.

8 (c) Its average annual net income for each of the 2 taxable years immediately
9 preceding the taxable year for which a credit is claimed does not exceed \$20,000,000.

10 (d) It's net worth in the taxable year for which a credit is claimed does not
11 exceed \$75,000,000.

12 (e) It is not engaged predominantly in providing professional services by
13 accountants, lawyers, or physicians.

14 (f) It is not engaged predominantly in trade or in the leisure and hospitality
15 industry.

16 (g) It is not engaged in banking or lending or in developing real estate for resale.

17 (h) It does not make loans to, or investments in, certified capital companies, as
18 defined in s. 560.30 (2).

19 (i) It has been in operation in this state for at least 3 consecutive years but not
20 more than 10 consecutive years.

21 **(27)** Certify venture capital funds as follows:

22 (a) The department shall promulgate rules establishing a procedure for the
23 department to certify venture capital funds for purposes of the capital gains tax
24 exemption under s. 71.05 (24). The rules shall do all of the following:

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as described under sub. (26), that are

1 1. Require a venture capital fund that desires to obtain a certification to file an
2 application with the department.

3 2. Permit a venture capital fund to obtain a certification only if the venture
4 capital fund is a private seed and venture capital partnership or entity fund, the
5 venture capital fund has its principal place of business in Wisconsin, and the venture
6 capital fund commits to make equity investments in businesses located in Wisconsin.

7 3. Require an applicant for certification or a certified venture capital fund to
8 provide the department with any information the department determines is
9 necessary to ensure eligibility for certification and compliance with this subsection
10 and rules promulgated under this subsection.

11 (b) Upon request of any person, the department shall issue a written notice
12 indicating whether a venture capital fund is certified under this subsection for
13 purposes of the capital gains tax exemption under s. 71.05 (24). Each notice under
14 this paragraph that indicates a venture capital fund is certified shall include the
15 following statement: "THE WISCONSIN DEPARTMENT OF COMMERCE HAS NOT
16 RECOMMENDED OR APPROVED AN INVESTMENT IN THIS VENTURE CAPITAL FUND OR ASSESSED
17 THE MERITS OR RISKS OF SUCH AN INVESTMENT. INVESTORS SHOULD RELY SOLELY ON THEIR
18 OWN INVESTIGATION AND ANALYSIS AND SEEK INVESTMENT, FINANCIAL, LEGAL, AND TAX
19 ADVICE BEFORE MAKING THEIR OWN DECISION REGARDING INVESTMENT IN THIS ENTERPRISE."

20 (c) Upon the issuance or discontinuance of a certification, the department of
21 commerce shall notify the department of revenue and provide the department of
22 revenue a copy of the certification or discontinuance.

SECTION 15. Nonstatutory provisions.

24 (1) RULES. The department of commerce shall submit in proposed form the rules
25 required under section 560.03 (26) and (27) of the statutes, as created by this act, to

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1 the legislative council staff under section 227.15 (1) of the statutes no later than the
2 first day of the 6th month beginning after the effective date of this subsection.

SECTION 16. Initial applicability.

4 (1) **QUALIFIED NEW BUSINESS VENTURE CREDIT.** The treatment of sections 71.05
5 (6) (a) 15., 71.07 (5d), 71.10 (4) (gx), 71.21 (4), 71.26 (2) (a), 71.28 (5d), 71.30 (3) (eop),
6 71.34 (1) (g), 71.45 (2) (a) 10., 71.47 (5d), 71.49 (1) (eop), and 77.92 (4) of the statutes
7 first applies to taxable years beginning on January 1, 2006.

8 (2) **INCOME TAX DEFERRAL.** The treatment of section 71.05 (24) of the statutes
9 first applies to taxable years beginning on January 1, 2006.

10 **SECTION 17. Effective dates.** This act takes effect on July 1, 2004, except as
11 follows:

12 (1) **RULES.** SECTION 15 (1) of this act takes effect on the day after publication.

13 **(END)**



State of Wisconsin
2003 - 2004 LEGISLATURE

LRB-3266/2

JK/MES/RJM:kmg&jld:rs

2003 SENATE BILL

Wanted
today

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3 (5d), 71.30 (3) (eop), 71.47 (5d), 71.49 (1) (eop) and 560.03 (24) to (27) of the
4 statutes; **relating to:** creating a qualified new business venture tax credit and
5 a capital gains tax exemption regarding investments in certified venture
6 capital funds and qualified new business ventures, requiring a study of new
7 Wisconsin businesses, facilitating the development of certain investor
8 networks, and granting rule-making authority.

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

SENATE BILL

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 or in a qualified new business venture (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

to the extent that the gain is not already excluded from taxation,

SENATE BILL

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.

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3 (2di), (2dj), (2dL), (2dm), (2dr), (2ds), (2dx), (3g), ~~and (3s)~~, and (5d) and not passed
4 through by a partnership, limited liability company, or tax-option corporation that
5 has added that amount to the partnership’s, company’s, or tax-option corporation’s
6 income under s. 71.21 (4) or 71.34 (1) (g).

7 **SECTION 2.** 71.05 (24) of the statutes is created to read:

8 71.05 (24) INCOME TAX DEFERRAL; INVESTMENTS IN CERTAIN VENTURE CAPITAL FUNDS
9 AND QUALIFIED NEW BUSINESS VENTURES. (a) In this subsection:

10 1. “Claimant” means an individual; an individual partner or member of a
11 partnership, limited liability company, or limited liability partnership; or an
12 individual shareholder of a tax-option corporation.

13 2. “Financial institution” has the meaning given in s. 69.30 (1) (b).

14 3. “Long-term capital gain” means the gain realized from the sale of any asset
15 held more than one year.

SENATE BILL

SECTION 2

To the extent that the gains are not excluded from taxation under sub. (b) (b) 9, a

1 (b) claimant may subtract from federal adjusted gross income any amount
2 of a long-term capital gain, or any gain realized from the sale of an asset that is an
3 investment in a qualified new business venture that is certified under s. 560.03 (26)
4 or a venture capital fund that is certified under s. 560.03 (27) if the claimant does all
5 of the following:

6 1. Immediately deposits the gain in a segregated account in a financial
7 institution.

8 2. Within 90 days after the sale of the asset that generated the gain, purchases
9 another capital asset, which is an investment in a qualified new business venture
10 that is certified under s. 560.03 (26) or a venture capital fund that is certified under
11 s. 560.03 (27), of equal or greater value using all of the proceeds in the account
12 described under subd. 1.

13 3. After purchasing a capital asset as described under subd. 2., immediately
14 notifies the department, on a form prepared by the department, that the claimant
15 will not declare on the claimant's income tax return the gain described under subd.
16 1. because the claimant has reinvested the capital gain as described under subd. 2.

17 (c) The basis of the purchased capital asset described in par. (b) 2. shall be
18 calculated by subtracting the gain described in par. (b) 1. from the cost of the
19 purchased asset described in par. (b) 2.

20 (d) If a claimant defers the payment of income taxes on a capital gain under this
21 subsection, the claimant may not use the gain described under par. (b) 1. to net
22 capital gains and losses, as described under sub. (10) (c).

23 **SECTION 3.** 71.07 (5d) of the statutes is created to read:

24 **71.07 (5d) QUALIFIED NEW BUSINESS VENTURE CREDIT.** (a) In this subsection:

25 1. "Broker-dealer" has the meaning given in s. 551.02 (3).

SENATE BILL

1 2. “Claimant” means a person who files a claim under this subsection.

2 3. “Qualified new business venture” means a business that is certified under
3 s. 560.03 (26).

4 (b) Subject to the limitations provided in this subsection and in s. 560.03 (26),
5 a claimant may claim as a credit against the tax imposed under s. 71.02, up to the
6 amount of those taxes, any of the following:

7 1. An amount equal to 20 percent of the claimant’s investment in a qualified
8 new business venture in the taxable year, except that if the claimant’s investment
9 exceeds \$100,000 in the taxable year the claimant may claim 20 percent of \$100,000
10 plus 10 percent of the amount of the investment that exceeds \$100,000.

11 2. If the claimant is a broker–dealer, an amount equal to 10 percent of the first
12 \$500,000 raised in an offering of a qualified new business venture in the taxable year.

13 (c) The carry–over provisions of s. 71.28 (4) (e) and (f), as they apply to the credit
14 under s. 71.28 (4), apply to the credit under this subsection.

15 (d) Partnerships, limited liability companies, and tax–option corporations may
16 not claim the credit under this subsection, but the eligibility for, and the amount of,
17 the credit are based on the amounts described under par. (b) that are attributable to
18 their business operations. A partnership, limited liability company, or tax–option
19 corporation shall compute the amount of credit that each of its partners, members,
20 or shareholders may claim and shall provide that information to each of them.
21 Partners, members of limited liability companies, and shareholders of tax–option
22 corporations may claim the credit in proportion to their ownership interest.

23 (e) Section 71.28 (4) (g) and (h), as it applies to the credit under s. 71.28 (4),
24 applies to the credit under this subsection.

25 **SECTION 4.** 71.10 (4) (gx) of the statutes is created to read:

SENATE BILL

1 71.10 (4) (gx) Qualified new business venture credit under s. 71.07 (5d).

2 **SECTION 5.** 71.21 (4) of the statutes is amended to read:

3 71.21 (4) Credits computed by a partnership under s. 71.07 (2dd), (2de), (2di),
4 (2dj), (2dL), (2dm), (2ds), (2dx), (3g), and (3s), and (5d) and passed through to
5 partners shall be added to the partnership's income.

6 **SECTION 6.** 71.26 (2) (a) of the statutes is amended to read:

7 71.26 (2) (a) *Corporations in general.* The "net income" of a corporation means
8 the gross income as computed under the Internal Revenue Code as modified under
9 sub. (3) minus the amount of recapture under s. 71.28 (1di) plus the amount of credit
10 computed under s. 71.28 (1), (3), (4), and (5) plus the amount of the credit computed
11 under s. 71.28 (1dd), (1de), (1di), (1dj), (1dL), (1dm), (1ds), (1dx), and (3g), and (5d)
12 and not passed through by a partnership, limited liability company, or tax-option
13 corporation that has added that amount to the partnership's, limited liability
14 company's, or tax-option corporation's income under s. 71.21 (4) or 71.34 (1) (g) plus
15 the amount of losses from the sale or other disposition of assets the gain from which
16 would be wholly exempt income, as defined in sub. (3) (L), if the assets were sold or
17 otherwise disposed of at a gain and minus deductions, as computed under the
18 Internal Revenue Code as modified under sub. (3), plus or minus, as appropriate, an
19 amount equal to the difference between the federal basis and Wisconsin basis of any
20 asset sold, exchanged, abandoned, or otherwise disposed of in a taxable transaction
21 during the taxable year, except as provided in par. (b) and s. 71.45 (2) and (5).

22 **SECTION 7.** 71.28 (5d) of the statutes is created to read:

23 71.28 (5d) **QUALIFIED NEW BUSINESS VENTURE CREDIT.** (a) In this subsection:

- 24 1. "Broker-dealer" has the meaning given in s. 551.02 (3).
25 2. "Claimant" means a person who files a claim under this subsection.

SENATE BILL

1 3. “Qualified new business venture” means a business that is certified under
2 s. 560.03 (26).

3 (b) Subject to the limitations provided in this subsection and in s. 560.03 (26),
4 a claimant may claim as a credit against the tax imposed under s. 71.23, up to the
5 amount of those taxes, any of the following:

6 1. An amount equal to 20 percent of the claimant’s investment in a qualified
7 new business venture in the taxable year, except that if the claimant’s investment
8 exceeds \$100,000 in the taxable year the claimant may claim 20 percent of \$100,000
9 plus 10 percent of the amount of the investment that exceeds \$100,000.

10 2. If the claimant is a broker–dealer, an amount equal to 10 percent of the first
11 \$500,000 raised in an offering of a qualified new business venture in the taxable year.

12 (c) The carry–over provisions of sub. (4) (e) and (f), as they apply to the credit
13 under sub. (4), apply to the credit under this subsection.

14 (d) Partnerships, limited liability companies, and tax–option corporations may
15 not claim the credit under this subsection, but the eligibility for, and the amount of,
16 the credit are based on the amounts described under par. (b) that are attributable to
17 their business operations. A partnership, limited liability company, or tax–option
18 corporation shall compute the amount of credit that each of its partners, members,
19 or shareholders may claim and shall provide that information to each of them.
20 Partners, members of limited liability companies, and shareholders of tax–option
21 corporations may claim the credit in proportion to their ownership interest.

22 (e) Subsection (4) (g) and (h), as it applies to the credit under sub. (4), applies
23 to the credit under this subsection.

24 **SECTION 8.** 71.30 (3) (eop) of the statutes is created to read:

25 71.30 (3) (eop) Qualified new business venture credit under s. 71.28 (5d).

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1 **SECTION 9.** 71.34 (1) (g) of the statutes is amended to read:

2 71.34 (1) (g) An addition shall be made for credits computed by a tax-option
3 corporation under s. 71.28 (1dd), (1de), (1di), (1dj), (1dL), (1dm), (1ds), (1dx), (3), and
4 (3g), and (5d) and passed through to shareholders.

5 **SECTION 10.** 71.45 (2) (a) 10. of the statutes is amended to read:

6 71.45 (2) (a) 10. By adding to federal taxable income the amount of credit
7 computed under s. 71.47 (1dd) to (1dx) and (5d) and not passed through by a
8 partnership, limited liability company or tax-option corporation that has added that
9 amount to the partnership's, limited liability company's or tax-option corporation's
10 income under s. 71.21 (4) or 71.34 (1) (g) and the amount of credit computed under
11 s. 71.47 (1), (3), (4) and (5).

12 **SECTION 11.** 71.47 (5d) of the statutes is created to read:

13 71.47 (5d) **QUALIFIED NEW BUSINESS VENTURE CREDIT.** (a) In this subsection:

14 1. "Broker-dealer" has the meaning given in s. 551.02 (3).

15 2. "Claimant" means a person who files a claim under this subsection.

16 3. "Qualified new business venture" means a business that is certified under
17 s. 560.03 (26).

18 (b) Subject to the limitations provided in this subsection and in s. 560.03 (26),
19 a claimant may claim as a credit against the tax imposed under s. 71.43, up to the
20 amount of those taxes, any of the following:

21 1. An amount equal to 20 percent of the claimant's investment in a qualified
22 new business venture in the taxable year, except that if the claimant's investment
23 exceeds \$100,000 in the taxable year the claimant may claim 20 percent of \$100,000
24 plus 10 percent of the amount of the investment that exceeds \$100,000.

SENATE BILL

1 2. If the claimant is a broker–dealer, an amount equal to 10 percent of the first
2 \$500,000 raised in an offering of a qualified new business venture in the taxable year.

3 (c) The carry–over provisions of s. 71.28 (4) (e) and (f), as they apply to the credit
4 under s. 71.28 (4), apply to the credit under this subsection.

5 (d) Partnerships, limited liability companies, and tax–option corporations may
6 not claim the credit under this subsection, but the eligibility for, and the amount of,
7 the credit are based on the amounts described under par. (b) that are attributable to
8 their business operations. A partnership, limited liability company, or tax–option
9 corporation shall compute the amount of credit that each of its partners, members,
10 or shareholders may claim and shall provide that information to each of them.
11 Partners, members of limited liability companies, and shareholders of tax–option
12 corporations may claim the credit in proportion to their ownership interest.

13 (e) Section 71.28 (4) (g) and (h), as it applies to the credit under s. 71.28 (4),
14 applies to the credit under this subsection.

15 **SECTION 12.** 71.49 (1) (eop) of the statutes is created to read:

16 71.49 (1) (eop) Qualified new business venture credit under s. 71.47 (5d).

17 **SECTION 13.** 77.92 (4) of the statutes is amended to read:

18 77.92 (4) “Net business income”, with respect to a partnership, means taxable
19 income as calculated under section 703 of the Internal Revenue Code; plus the items
20 of income and gain under section 702 of the Internal Revenue Code, including taxable
21 state and municipal bond interest and excluding nontaxable interest income or
22 dividend income from federal government obligations; minus the items of loss and
23 deduction under section 702 of the Internal Revenue Code, except items that are not
24 deductible under s. 71.21; plus guaranteed payments to partners under section 707
25 (c) of the Internal Revenue Code; plus the credits claimed under s. 71.07 (2dd), (2de),

SENATE BILL**SECTION 13**

1 (2di), (2dj), (2dL), (2dm), (2dr), (2ds), (2dx), and (3g), and (3s), and (5d); and plus or
2 minus, as appropriate, transitional adjustments, depreciation differences, and basis
3 differences under s. 71.05 (13), (15), (16), (17), and (19); but excluding income, gain,
4 loss, and deductions from farming. “Net business income”, with respect to a natural
5 person, estate, or trust, means profit from a trade or business for federal income tax
6 purposes and includes net income derived as an employee as defined in section 3121
7 (d) (3) of the Internal Revenue Code.

8 **SECTION 14.** 560.03 (24) to (27) of the statutes are created to read:

9 560.03 (24) In cooperation with the department of financial institutions and
10 the Board of Regents of the University of Wisconsin System, annually conduct and
11 publish the results of a study of Wisconsin businesses to determine new business
12 formation trends and identify obstacles faced by new Wisconsin businesses and areas
13 where changes in governmental policy may satisfy the needs of new Wisconsin
14 businesses. As part of the study, the department of commerce shall conduct a survey
15 of Wisconsin businesses.

16 (25) In cooperation with the department of financial institutions and the Board
17 of Regents of the University of Wisconsin System, provide education and other
18 support to facilitate the development networks of investors that review new
19 businesses or proposed new businesses for potential investment.

20 (26) Certify businesses as qualified new business ventures for purposes of ss.
21 71.07 (5d), 71.28 (5d), and 71.47 (5d). The department shall promulgate rules for the
22 administration of this subsection. The rules shall require a business desiring
23 certification to submit an application to the department. The department shall
24 maintain a list of businesses certified under this subsection and shall permit public
25 access to the list through the department’s Internet website. The department shall

SENATE BILL

1 notify the department of revenue of every business certified under this subsection
2 and the date on which any such business is decertified. A business may be certified
3 under this subsection, and may maintain such certification, only if the business
4 satisfies all of the following conditions:

5 (a) It has its headquarters in this state.

6 (b) At least 51 percent of the employees employed by the business are employed
7 in this state.

8 (c) Its average annual net income for each of the 2 taxable years immediately
9 preceding the taxable year for which a credit is claimed does not exceed \$20,000,000.

10 (d) Its net worth in the taxable year for which a credit is claimed does not
11 exceed \$75,000,000.

12 (e) It is not engaged predominantly in providing professional services by
13 accountants, lawyers, or physicians.

14 (f) It is not engaged predominantly in trade or in the leisure and hospitality
15 industry.

16 (g) It is not engaged in banking or lending or in developing real estate for resale.

17 (h) It does not make loans to, or investments in, certified capital companies, as
18 defined in s. 560.30 (2).

19 (i) It has been in operation in this state for at least 3 consecutive years but not
20 more than 10 consecutive years.

21 **(27) Certify venture capital funds as follows:**

22 (a) The department shall promulgate rules establishing a procedure for the
23 department to certify venture capital funds for purposes of the capital gains tax
24 exemption under s. 71.05 (24). The rules shall do all of the following:

SENATE BILL

1 1. Require a venture capital fund that desires to obtain a certification to file an
2 application with the department.

3 2. Permit a venture capital fund to obtain a certification only if the venture
4 capital fund is a private seed and venture capital partnership or entity fund, the
5 venture capital fund has its principal place of business in Wisconsin, and the venture
6 capital fund commits to make equity investments in businesses, as described under
7 sub. (26), that are located in Wisconsin.

8 3. Require an applicant for certification or a certified venture capital fund to
9 provide the department with any information the department determines is
10 necessary to ensure eligibility for certification and compliance with this subsection
11 and rules promulgated under this subsection.

12 (b) Upon request of any person, the department shall issue a written notice
13 indicating whether a venture capital fund is certified under this subsection for
14 purposes of the capital gains tax exemption under s. 71.05 (24). Each notice under
15 this paragraph that indicates a venture capital fund is certified shall include the
16 following statement: "THE WISCONSIN DEPARTMENT OF COMMERCE HAS NOT
17 RECOMMENDED OR APPROVED AN INVESTMENT IN THIS VENTURE CAPITAL FUND OR ASSESSED
18 THE MERITS OR RISKS OF SUCH AN INVESTMENT. INVESTORS SHOULD RELY SOLELY ON THEIR
19 OWN INVESTIGATION AND ANALYSIS AND SEEK INVESTMENT, FINANCIAL, LEGAL, AND TAX
20 ADVICE BEFORE MAKING THEIR OWN DECISION REGARDING INVESTMENT IN THIS ENTERPRISE."

21 (c) Upon the issuance or discontinuance of a certification, the department of
22 commerce shall notify the department of revenue and provide the department of
23 revenue a copy of the certification or discontinuance.

24 **SECTION 15. Nonstatutory provisions.**

Barman, Mike

From: Barman, Mike
Sent: Monday, September 22, 2003 9:23 AM
To: Sen.Kanavas
Subject: LRB 03-3266/3 (attached - requested by Jeremy)



03-3266/3

Mike Barman

Mike Barman - Senior Program Asst. (PH. 608-266-3561)
(E-Mail: mike.barman@legis.state.wi.us) (FAX: 608-264-6948)

State of Wisconsin
Legislative Reference Bureau - Legal Section - Front Office
100 N. Hamilton Street - 5th Floor
Madison, WI 53703

Memo

To: Senator Representative Kananas (The Draft's Requester)

Per your request: ... the attached fiscal estimate was prepared for your unIntroduced 2003 draft.

LRB Number: LRB - 3266

Version: "13"

Fiscal Estimate Prepared By: (agency abbr.) LLWS

If you have questions about the enclosed fiscal estimate, you may contact the state agency representative that prepared the fiscal estimate. If you disagree with the enclosed fiscal estimate, please contact the LRB drafter of your proposal to discuss your options under the fiscal estimate procedure.

Entered In Computer And Copy Sent To Requester Via E-Mail: 9/23/2003

* * * * *

To: LRB - Legal Section PA's

Subject: *Fiscal Estimate Received For An Unintroduced Draft*

- > **If redrafted** ... please insert this cover sheet and attached early fiscal estimate into the drafting file ... after the draft's old version (the version that this fiscal estimate was based on), and before the markup of the draft on the updated version.
- > **If introduced** ... and the version of the attached fiscal estimate is for a **previous version** ... please insert this cover sheet and attached early fiscal estimate into the drafting file ... after the draft's old version (the version that this fiscal estimate was based on), and before the markup of the draft on the updated version. Have Mike (or Lynn) get the ball rolling on getting a fiscal estimate prepared for the introduced version.
- > **If introduced** ... and the version of the attached fiscal estimate is for the **current version** ... please write the draft's introduction number below and give to Mike (or Lynn) to process.

THIS DRAFT WAS INTRODUCED AS: 2003 SB 261

Emery, Lynn

From: Emery, Lynn
Sent: Tuesday, September 23, 2003 4:27 PM
To: Sen.Kanavas
Subject: LRB-3266/3 (FE by UWS - attached - for your review)



03-3266feUWS.pdf

Lynn Emery
Program Assistant
Legislative Reference Bureau
608-266-3561
lynn.emery@legis.state.wi.us



State of Wisconsin

LEGISLATIVE REFERENCE BUREAU

100 NORTH HAMILTON STREET
P. O. BOX 2037
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LEGAL SECTION: (608) 266-3561
REFERENCE SECTION: (608) 266-0341
FAX: (608) 264-6948

STEPHEN R. MILLER
CHIEF

September 25, 2003

MEMORANDUM

To: Senator Kanavas

From: Joseph T. Kreye, Legislative Attorney, (608) 266-2263

Subject: Technical Memorandum to **SB-261** (LRB 03-3266/3)

We received the attached technical memorandum relating to your bill. This copy is for your information and your file. If you wish to discuss this memorandum or the necessity of revising your bill or preparing an amendment, please contact me.

MEMORANDUM

September 25, 2003

TO: Joseph Kreye
Legislative Reference Bureau

FROM: Dennis Collier
Department of Revenue

SUBJECT: Technical Memorandum on LRB 3266/3: Tax Credit for New Business Venture and Capital Gains Deferral

Qualified New Business Venture Tax Credit

Certain terms should be defined to reflect the sponsor's intent. It is unclear if an investment in a qualified new business venture must be a direct investment in which the business itself receives moneys, or if one individual may simply purchase an ownership interest from another person, with no additional capital invested in the business. It is also unclear if an offering by a broker-dealer means an initial public offering (IPO).

The order of computation of the credit in sec. 71.10 (4)(gx) allows it to offset the alternative minimum tax (AMT). However, the language in sec. 71.05 (5d)(b) provides that the credit may be offset against the tax under sec. 71.02. If the credit is intended to offset the AMT, then sec. 71.05 (5d)(b) should allow the credit against the taxes due under either secs. 71.02 or 71.08. Because the credit is claimed after the AMT, it should be included in the list of credits in sec. 71.08 (1)(a).

It is unclear what is meant by the first \$500,000 raised in an offering by a broker-dealer in a taxable year. Is it the intent that the broker-dealer claim a credit for \$500,000 in one taxable year and then again in the next taxable year for the same business? Alternatively, if the broker-dealer raises \$100,000 in one taxable year and \$300,000 in the next taxable year, is the broker-dealer limited to the credit only in the first taxable year?

Capital Gains Deferral

The language in the proposed bill does not instruct when and how the deferred gain must be reported as income. For example, it does not address the treatment of a husband and wife who make a joint investment and then separate or divorce before the asset is sold, nor does it address the treatment of an inherited investment.

The time frame expressed as "immediately" in sec. 71.05 (24)(b)1 and 3 needs to be clarified to specify the time by which the taxpayer must notify the department.

Section 71.05 (24) allows the deferral of a gain when a "capital asset" is purchased. The definition of a "capital asset" in sec. 1221 (a) of the IRC does not include property used in a trade or business that is subject to depreciation. Depreciable property when sold may be taxable as a long-term capital gain or as ordinary income. The language of the proposed bill should be changed if the intent is to allow the deferral for depreciable property.

Section 560.03 (27) refers to the capital gains tax deferral described in sec. 71.05 (24) as an "exemption". To avoid confusion, "exemption" should be changed to "deferral".

If you have any questions regarding this technical memorandum, please contact Pam Walgren at 266-7817 regarding the investment credit and Karen Kriz at 261-8984 for the capital gains deferral.