

2007 DRAFTING REQUEST

Bill

Received: 11/13/2006

Received By: **jkreye**

Wanted: **As time permits**

Identical to LRB:

For: **Administration-Budget**

By/Representing: **Easton**

This file may be shown to any legislator: **NO**

Drafter: **jkreye**

May Contact:

Addl. Drafters:

Subject: **Tax, Business - credits**

Extra Copies:

Submit via email: **NO**

Pre Topic:

DOA:.....Easton, BB0164 -

Topic:

Changes to angel and early stage seed investment credits

Instructions:

See Attached

Drafting History:

<u>Vers.</u>	<u>Drafted</u>	<u>Reviewed</u>	<u>Typed</u>	<u>Proofed</u>	<u>Submitted</u>	<u>Jacketed</u>	<u>Required</u>
/?				_____			State
/1	jkreye 11/14/2006	lkunkel 11/16/2006	pgreensl 11/16/2006	_____	mbarman 11/16/2006		State
/2	jkreye 01/30/2007	kfollett 01/30/2007	pgreensl 01/30/2007	_____	mbarman 01/30/2007		

FE Sent For:

<END>

2007 DRAFTING REQUEST

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Received: 11/13/2006

Received By: jkreya

Wanted: As time permits

Identical to LRB:

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By/Representing: Easton

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/?							State
/1	jkreya 11/14/2006	lkunkel 11/16/2006	pgreensl 11/16/2006	<u>1/30</u> pg	mbarman 11/16/2006		

FE Sent For: 12/16/06 11/30/06 1/30/06 pg <END>

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/?	jkreye	11/15f 11/16	11/16 ps	11/16 ps			

FE Sent For:

<END>

0724

2007-09 Budget Bill Statutory Language Drafting Request

- Topic: Angel & Early Seed Correction
- Tracking Code: BB0164
- SBO team: Tax and Local Government
- SBO analyst: Easton
 - Phone: 6-7597
 - Email: Darren.easton@wisconsin.gov
- Agency acronym: DOR
- Agency number: 566
- Priority (Low, Medium, High): Medium

**Legislative Proposal Summary
Wisconsin Department of Revenue
Research and Policy Division**

August 7, 2006

TITLE: ANGEL AND EARLY SEED INVESTMENT CREDITS

DESCRIPTION OF CURRENT LAW AND PROBLEM

Under current law, angel and early seed investment credits are treated like credits claimed by businesses in the normal course of business. The amounts of the credits are added to taxable income of the claimant in the year the credits are claimed to prevent the claimant from receiving both a deduction and a credit for the same expenditure. However, the angel and early seed credits are for venture capital investments, so that the investments are made by outsiders into a business, rather than investments and expenditures made by a business into its own operations. Hence, the double benefit of the credit does not apply to these credits to the same extent it applies to other business credits.

Since the credits have the effect of reducing the cost of the investment, a better alternative is to decrease the basis of the investment. This would be similar to how the federal government handles the federal Investment Tax Credit.

RECOMMENDATION FOR ACTION

Delete the requirement that the amount of credits be added to taxable income of the claimants and, instead, require that the basis of the property be decreased by the amount of the credits to reflect the true cost of the investment to the taxpayer.

ADMINISTRATIVE IMPACT

Minimal.

FAIRNESS/TAX EQUITY

The proposal would treat venture capital investments eligible for the angel and early seed investment credits like other investments are treated and would not penalize investors in the year investments are made.

IMPACT ON ECONOMIC DEVELOPMENT

None. The fiscal effect of this proposed tax change is minimal in relation to the large tax advantage associated with claiming the credit. As such, it is unlikely to affect venture capital investments or usage of the credits.

FISCAL EFFECT

Not including the amount of credit in taxable income will reduce income subject to tax in the year the credit is claimed. Reducing the basis of the property will increase capital gains in the year the property is sold. However, Wisconsin's 60% exclusion for the net capital gain from assets held more than one year will decrease the amount of gain subject to tax.

The angel investment credit is limited to \$3 million of credits per year and the early stage seed investment credit to \$3.5 million per year. The difference in tax treatment is largely attributable to the 60% capital gains exclusion under current law that would apply to gains in the case of the basis adjustment. The estimate assumes a tax rate of 6.5%. If the full amount of credits were claimed each year, eliminating the add-back would reduce revenues by approximately \$422,500 (\$6.5 million x 6.5%) per year. In addition, if all of the property were subject to the capital gains exclusion, the basis adjustment on that amount of investment would increase revenues by an estimated \$169,000 (\$6.5 million x 6.5% x 40%) at the time the investments were sold. As a result, the overall fiscal effect of the proposal would be a revenue loss of \$253,500 over the life of the \$6.5 million of investments. Since it is not known how long the investments would be held or if they would be sold at a gain, it is also not known when, or if, the off-setting revenue gain would occur.

DRAFTING INSTRUCTIONS

Delete the provisions in sections 71.05 (6)(a)15, 71.21 (4), 71.34 (1)(g), 71.45 (2)(a) and 77.92 (4) that require the amount of angel or early seed investment credits to be added to taxable income in the year the credits are claimed. Require that the Wisconsin basis of the investment be reduced by the amount of any credit awarded to reflect the true cost of the investment to the investor.

Amend s. 71.05(6)(a) 15. to read as follows:

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

Renumber s. 71.07(5b)(d) to s. 71.07(5b)(e)

Create s. s. 71.07(5b)(d) to read as follows:

Basis Adjustment. The Wisconsin adjusted basis of any early stage seed investment for which a credit was claimed under par. (b) shall be reduced by the amount of credit offset against Wisconsin income taxes. The Wisconsin basis of a partner's interest in a partnership, of a member's interest in a limited liability company, or of stock in a tax-option corporation shall be adjusted to take into account adjustments made under this subdivision.

Renumber s. 71.07(5d)(d) to s. 71.07(5d)(e)

Create s. 71.07(5d)(d) to read as follows:

Basis Adjustment. The Wisconsin adjusted basis of any bona fide angel investment for which a credit was claimed under par. (b) shall be reduced by the amount of credit offset against Wisconsin income taxes.

Amend s. 71.21(4) to read as follows:

Credits computed by a partnership under s. 71.07(2dd), (2de), (2di), (2dL), (2dm), (2ds), (2dx), (3g), (3s), and (3t), ~~and (5b)~~ and passed through to partners shall be added to the partnership's income

Amend s. 71.26(2)(a) and 71.34(1)(g) to strike reference to the credit computed under s. 71.28(5b).

Re-number s. 71.28(5b)(d) to s. 71.28(5b)(e)

Create s. 71.28(5b)(d) to read as follows:

Basis adjustment. The Wisconsin adjusted basis of any early stage seed investment for which a credit was claimed under par. (b) shall be reduced by the amount of credit offset against Wisconsin income taxes. The Wisconsin basis of a partner's interest in a partnership, of a member's interest in a limited liability company, or of stock in a tax-option corporation shall be adjusted to take into account adjustments made under this subdivision.

Amend s. 71.45(2)(1)10. to strike reference to the credit computed under s. 71.47(5b).

Re-number s. 71.47(5b)(d) to s. 71.47(5b)(e)

Create s. 71.47(5b)(d) to read as follows:

Basis adjustment. The Wisconsin adjusted basis of any early stage seed investment for which a credit was claimed under par. (b) shall be reduced by the amount of credit used to offset against Wisconsin income taxes. The Wisconsin basis of a partner's interest in a partnership, of a member's interest in a limited liability company, or of stock in a tax-option corporation shall be adjusted to take into account adjustments made under this subdivision.

Amend s. 77.92(4) to strike reference to the credit computed under s. 71.07(5b)

EFFECTIVE DATE AND/OR INITIAL APPLICABILITY

Effective for taxable years beginning in 2007.

INTERESTED/AFFECTED PARTIES

Venture capital and angel investors eligible for the credits.

DOR CONTACT PERSON

Michael Oakleaf, (608) 261-5173
Michael.oakleaf@dor.state.wi.us

MO:skr

M:\Leg Proposals\2007-09 Proposals\R&P angel and seed basis adj.doc



State of Wisconsin
2007 - 2008 LEGISLATURE

LRB-0724/1

JK: kjf

DOA:.....Easton, BB0164 - Changes to angel and early stage seed investment credits

FOR 2007-09 BUDGET -- NOT READY FOR INTRODUCTION

in 11-14-06

Do Not Gen

1 AN ACT ...; relating to: the budget.

Analysis by the Legislative Reference Bureau

TAXATION

INCOME TAXATION

This bill makes technical changes to the early stage seed investment and angel investment income and franchise tax credits in order to facilitate the administration of the credits.

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:

2 SECTION 1. 71.05 (6) (a) [✓]15. of the statutes is amended to read:

3 71.05 (6) (a) 15. The amount of the credits computed under s. 71.07 (2dd), (2de),

4 (2di), (2dj), (2dL), (2dm), (2dr), (2ds), (2dx), (3g), (3n), (3s), (3t), (3w), (5b), (5d), (5e), (5f), and (5h) and not passed through by a partnership, limited liability

5 (5e), (5f), and (5h) and not passed through by a partnership, limited liability

1 company, or tax-option corporation that has added that amount to the partnership's,
2 company's, or tax-option corporation's income under s. 71.21 (4) or 71.34 (1) (g).

NOTE: NOTE: Subd. 15. is shown as affected by 3 acts of the 2005 Wisconsin legislature and as merged by the revisor under s. 13.93 (2) (c). The bracketed "and" was inserted by 2005 Wis. Act 479, but rendered surplusage by 2005 Wis. Act 483. Corrective legislation is pending. NOTE:

History: 1987 a. 312; 1987 a. 411 ss. 42, 43, 45, 47 to 49, 51 to 53; 1989 a. 31, 46; 1991 a. 2, 37, 39, 269; 1993 a. 16, 112, 204, 263, 437; 1995 a. 27, 56, 209, 227, 261, 371, 403, 453; 1997 a. 27, 35, 39, 237; 1999 a. 9, 32, 44, 54, 65, 167; 2001 a. 16, 104, 105, 109; 2003 a. 85, 99, 119, 135, 183, 255, 289, 321, 326; 2005 a. 22, 25, 216, 254, 335, 361, 479, 483; s. 13.93 (2) (c).

3 **SECTION 2.** 71.07 (5b) (d) of the statutes is renumbered 71.07 (5b) (d) 1.

4 **SECTION 3.** 71.07 (5b) (d) 2. of the statutes is created to read:

5 71.07 (5b) (d) 2. The Wisconsin adjusted basis of any investment for which a
6 credit is claimed under par. (b) shall be reduced by the amount of the credit that is
7 offset against Wisconsin income taxes. The Wisconsin basis of a partner's interest
8 in a partnership, a member's interest in a limited liability company, or stock in a
9 tax-option corporation shall be adjusted to reflect adjustments made under this
10 subdivision.

11 **SECTION 4.** 71.07 (5d) (d) 4. of the statutes is created to read:

12 71.07 (5d) (d) 4. The Wisconsin adjusted basis of any investment for which a
13 credit is claimed under par. (b) shall be reduced by the amount of the credit that is
14 offset against Wisconsin income taxes.

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

16 71.21 (4) Credits computed by a partnership under s. 71.07 (2dd), (2de), (2di),
17 (2dj), (2dL), (2dm), (2ds), (2dx), (3g), (3n), (3s), (3t), (3w), (5b), (5e), (5f), (5g), and (5h)
18 and passed through to partners shall be added to the partnership's income.

NOTE: NOTE: Sub. (4) is shown as affected by 4 acts of the 2005 Wisconsin legislature and as merged by the revisor under s. 13.93 (2) (c). NOTE:

History: 1987 a. 312, 411; 1989 a. 31; 1993 a. 112; 1995 a. 27, 400; 1997 a. 27; 2001 a. 16; 2003 a. 99, 135, 255, 326; 2005 a. 74, 361, 479, 483; s. 13.93 (2) (c).

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

20 71.26 (2) (a) *Corporations in general.* The "net income" of a corporation means
21 the gross income as computed under the Internal Revenue Code as modified under
22 sub. (3) minus the amount of recapture under s. 71.28 (1di) plus the amount of credit

1 computed under s. 71.28 (1), (3), (4), and (5) minus, as provided under s. 71.28 (3) (c)
 2 7., the amount of the credit under s. 71.28 (3) that the taxpayer added to income
 3 under this paragraph at the time that the taxpayer first claimed the credit plus the
 4 amount of the credit computed under s. 71.28 (1dd), (1de), (1di), (1dj), (1dL), (1dm),
 5 (1ds), (1dx), (3g), (3n), (3t), (3w), (5b), (5e), (5f), (5g), and (5h) and not passed through
 6 by a partnership, limited liability company, or tax-option corporation that has added
 7 that amount to the partnership's, limited liability company's, or tax-option
 8 corporation's income under s. 71.21 (4) or 71.34 (1) (g) plus the amount of losses from
 9 the sale or other disposition of assets the gain from which would be wholly exempt
 10 income, as defined in sub. (3) (L), if the assets were sold or otherwise disposed of at
 11 a gain and minus deductions, as computed under the Internal Revenue Code as
 12 modified under sub. (3), plus or minus, as appropriate, an amount equal to the
 13 difference between the federal basis and Wisconsin basis of any asset sold,
 14 exchanged, abandoned, or otherwise disposed of in a taxable transaction during the
 15 taxable year, except as provided in par. (b) and s. 71.45 (2) and (5).

~~NOTE: NOTE: Par. (a) is shown as affected by 4 acts of the 2005 Wisconsin legislature and as merged by the revisor under s. 13.93 (2) (c). NOTE:~~

History: 1987 a. 312; 1987 a. 411 ss. 22, 124 to 129; 1989 a. 31, 336; 1991 a. 37, 39, 221, 269; 1993 a. 16, 112, 246, 263, 399, 437, 491; 1995 a. 27, 56, 351, 371, 380, 428; 1997 a. 27, 37, 184, 237; 1999 a. 9, 65; 1999 a. 150 s. 672; 1999 a. 167, 194; 2001 a. 16, 38, 106, 109; 2003 a. 33, 85, 99, 135, 255, 326; 2005 a. 25, 74, 335, 361, 362, 479, 483; s. 13.93 (2) (c).

16 **SECTION 7.** 71.28 (5b) (d) of the statutes is renumbered 71.28 (5b) (d) 1.

17 **SECTION 8.** 71.28 (5b) (d) 2. of the statutes is created to read:

18 71.28 (5b) (d) 2. The Wisconsin adjusted basis of any investment for which a
 19 credit is claimed under par. (b) shall be reduced by the amount of the credit that is
 20 offset against Wisconsin income taxes. The Wisconsin basis of a partner's interest
 21 in a partnership, a member's interest in a limited liability company, or stock in a
 22 tax-option corporation shall be adjusted to reflect adjustments made under this
 23 subdivision.

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), (3g),
4 (3n), (3t), (3w), (5b), (5e), (5f), (5g), and (5h) and passed through to shareholders.

~~NOTE: NOTE: Par. (g) is shown as affected by 4 acts of the 2005 Wisconsin legislature and as merged by the revisor under s. 13.93 (2) (c). NOTE:~~

~~History: 1987 a. 312; 1987 a. 411 ss. 18, 23, 146; 1989 a. 31, 336; 1991 a. 39, 269; 1993 a. 16, 437; 1995 a. 27, 380, 428; 1997 a. 27, 37, 237; 1999 a. 9, 194; 2001 a. 16, 109; 2003 a. 33, 99, 135, 255, 326; 2005 a. 25, 49, 74, 361, 479, 483; s. 13.93 (2) (c).~~

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), (3n), (3w), (5b), (5e), (5f), (5g), and (5h) and
8 not passed through by a partnership, limited liability company, or tax-option
9 corporation that has added that amount to the partnership's, limited liability
10 company's, or tax-option corporation's income under s. 71.21 (4) or 71.34 (1) (g) and
11 the amount of credit computed under s. 71.47 (1), (3), (3t), (4), and (5).

~~NOTE: NOTE: Subd. 10. is shown as affected by 4 acts of the 2005 Wisconsin legislature and as merged by the revisor under s. 13.93 (2) (c). NOTE:~~

~~History: 1987 a. 312; 1989 a. 31, 336, 359; 1991 a. 37, 39, 269; 1993 a. 16, 112, 263, 437; 1995 a. 27, 56, 371, 380; 1997 a. 27, 37, 237; 1999 a. 9, 65; 1999 a. 150 s. 672; 1999 a. 167, 194; 2001 a. 16, 38, 109; 2003 a. 37, 85, 99, 135, 255, 326; 2005 a. 74, 297, 335, 361, 479, 483; s. 13.93 (2) (c).~~

12 **SECTION 11.** 71.47 (5b) (d) 2. of the statutes is created to read:

13 71.47 (5b) (d) 2. The Wisconsin adjusted basis of any investment for which a
14 credit is claimed under par. (b) shall be reduced by the amount of the credit that is
15 offset against Wisconsin income taxes. The Wisconsin basis of a partner's interest
16 in a partnership, a member's interest in a limited liability company, or stock in a
17 tax-option corporation shall be adjusted to reflect adjustments made under this
18 subdivision.

19 **SECTION 12.** 77.92 (4) of the statutes is amended to read:

20 77.92 (4) "Net business income," with respect to a partnership, means taxable
21 income as calculated under section 703 of the Internal Revenue Code; plus the items
22 of income and gain under section 702 of the Internal Revenue Code, including taxable
23 state and municipal bond interest and excluding nontaxable interest income or

SECTION # 71.47 (5b) (d) of the statutes is renumbered
71.47 (5b) (d) 1.

1 dividend income from federal government obligations; minus the items of loss and
 2 deduction under section 702 of the Internal Revenue Code, except items that are not
 3 deductible under s. 71.21; plus guaranteed payments to partners under section 707
 4 (c) of the Internal Revenue Code; plus the credits claimed under s. 71.07 (2dd), (2de),
 5 (2di), (2dj), (2dL), (2dm), (2dr), (2ds), (2dx), (3g), (3s), (3n), (3t), (3w), (5b), (5e), (5f),
 6 (5g), and (5h); and plus or minus, as appropriate, transitional adjustments,
 7 depreciation differences, and basis differences under s. 71.05 (13), (15), (16), (17), and
 8 (19); but excluding income, gain, loss, and deductions from farming. "Net business
 9 income," with respect to a natural person, estate, or trust, means profit from a trade
 10 or business for federal income tax purposes and includes net income derived as an
 11 employee as defined in section 3121 (d) (3) of the Internal Revenue Code.

NOTE: NOTE: Sub. (4) is shown as affected by 4 acts of the 2005 Wisconsin legislature and as merged by the revisor under s. 13.93 (2) (c). NOTE:

History: 1989 a. 335; 1991 a. 39, 269; 1993 a. 16, 112, 490; 1995 a. 27, 209; 1997 a. 27; 1999 a. 9; 2001 a. 16; 2003 a. 99, 135, 255, 326; 2005 a. 74, 361, 479, 483; s. 13.93 (2) (c).

12 SECTION 9341. Initial applicability; Revenue.

13 (1) EARLY STAGE SEED AND ANGEL INVESTMENT CREDITS. The renumbering of
 14 sections 71.07 (5b) (d), 71.28 (5b) (d), and 71.47 (5b) (d) of the statutes, the
 15 amendment of 71.05 (6) (a) 15., 71.21 (4), 71.26 (2) (a), 71.34 (1) (g), 71.45 (2) (a) 10.
 16 and 77.92 (4) of the statutes, and the creation of sections 71.07 (5b) (d) 2. and (5d) (d)
 17 4., 71.28 (5b) (d) 2., and 71.47 (5b) (d) 2. of the statutes first applies to taxable years
 18 beginning on January 1, 2007.

19 (END)



State of Wisconsin
2007 - 2008 LEGISLATURE

LRB-0724/1

JK:kjf:pg

RMR

DOA:.....Easton, BB0164 - Changes to angel and early stage seed investment credits

FOR 2007-09 BUDGET -- NOT READY FOR INTRODUCTION

1-30-07

DN

Don't Gen

1 AN ACT ...; relating to: the budget.

Analysis by the Legislative Reference Bureau

TAXATION

INCOME TAXATION

This bill makes technical changes to the early stage seed investment and angel investment income and franchise tax credits in order to facilitate the administration of the credits.

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:

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

71.05 (6) (a) 15. The amount of the credits computed under s. 71.07 (2dd), (2de), (2di), (2dj), (2dL), (2dm), (2dr), (2ds), (2dx), (3g), (3n), (3s), (3t), (3w), (5b), (5d), and (5e), (5f), and (5h) and not passed through by a partnership, limited liability

1 company, or tax-option corporation that has added that amount to the partnership's,
2 company's, or tax-option corporation's income under s. 71.21 (4) or 71.34 (1) (g).

3 **SECTION 2.** 71.07 (5b) (d) of the statutes is renumbered 71.07 (5b) (d) 1.

4 **SECTION 3.** 71.07 (5b) (d) 2. of the statutes is created to read:

5 71.07 **(5b)** (d) 2. The Wisconsin adjusted basis of any investment for which a
6 credit is claimed under par. (b) shall be reduced by the amount of the credit that is
7 offset against Wisconsin income taxes. The Wisconsin basis of a partner's interest
8 in a partnership, a member's interest in a limited liability company, or stock in a
9 tax-option corporation shall be adjusted to reflect adjustments made under this
10 subdivision.

11 **SECTION 4.** 71.07 (5d) (d) 4. of the statutes is created to read:

12 71.07 **(5d)** (d) 4. The Wisconsin adjusted basis of any investment for which a
13 credit is claimed under par. (b) shall be reduced by the amount of the credit that is
14 offset against Wisconsin income taxes.

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

16 71.21 **(4)** Credits computed by a partnership under s. 71.07 (2dd), (2de), (2di),
17 (2dj), (2dL), (2dm), (2ds), (2dx), (3g), (3n), (3s), (3t), (3w), ~~(5b)~~, (5e), (5f), (5g), and (5h)
18 and passed through to partners shall be added to the partnership's income.

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

20 71.26 **(2)** (a) *Corporations in general.* The "net income" of a corporation means
21 the gross income as computed under the Internal Revenue Code as modified under
22 sub. (3) minus the amount of recapture under s. 71.28 (1di) plus the amount of credit
23 computed under s. 71.28 (1), (3), (4), and (5) minus, as provided under s. 71.28 (3) (c)
24 7., the amount of the credit under s. 71.28 (3) that the taxpayer added to income
25 under this paragraph at the time that the taxpayer first claimed the credit plus the

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

13 **SECTION 7.** 71.28 (5b) (d) of the statutes is renumbered 71.28 (5b) (d) 1.

14 **SECTION 8.** 71.28 (5b) (d) 2. of the statutes is created to read:

15 71.28 (5b) (d) 2. The Wisconsin adjusted basis of any investment for which a
16 credit is claimed under par. (b) shall be reduced by the amount of the credit that is
17 offset against Wisconsin income taxes. The Wisconsin basis of a partner's interest
18 in a partnership, a member's interest in a limited liability company, or stock in a
19 tax-option corporation shall be adjusted to reflect adjustments made under this
20 subdivision.

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

22 71.34 (1) (g) An addition shall be made for credits computed by a tax-option
23 corporation under s. 71.28 (1dd), (1de), (1di), (1dj), (1dL), (1dm), (1ds), (1dx), (3), (3g),
24 (3n), (3t), (3w), (5b), (5e), (5f), (5g), and (5h) and passed through to shareholders.

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

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

7 **SECTION 11.** 71.47 (5b) (d) of the statutes is renumbered 71.47 (5b) (d) 1.

8 **SECTION 12.** 71.47 (5b) (d) 2. of the statutes is created to read:

9 71.47 (5b) (d) 2. The Wisconsin adjusted basis of any investment for which a
10 credit is claimed under par. (b) shall be reduced by the amount of the credit that is
11 offset against Wisconsin income taxes. The Wisconsin basis of a partner's interest
12 in a partnership, a member's interest in a limited liability company, or stock in a
13 tax-option corporation shall be adjusted to reflect adjustments made under this
14 subdivision.

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

16 77.92 (4) "Net business income," with respect to a partnership, means taxable
17 income as calculated under section 703 of the Internal Revenue Code; plus the items
18 of income and gain under section 702 of the Internal Revenue Code, including taxable
19 state and municipal bond interest and excluding nontaxable interest income or
20 dividend income from federal government obligations; minus the items of loss and
21 deduction under section 702 of the Internal Revenue Code, except items that are not
22 deductible under s. 71.21; plus guaranteed payments to partners under section 707
23 (c) of the Internal Revenue Code; plus the credits claimed under s. 71.07 (2dd), (2de),
24 (2di), (2dj), (2dL), (2dm), (2dr), (2ds), (2dx), (3g), (3s), (3n), (3t), (3w), (5b), (5e), (5f),
25 (5g), and (5h); and plus or minus, as appropriate, transitional adjustments,

1 depreciation differences, and basis differences under s. 71.05 (13), (15), (16), (17), and
2 (19); but excluding income, gain, loss, and deductions from farming. "Net business
3 income," with respect to a natural person, estate, or trust, means profit from a trade
4 or business for federal income tax purposes and includes net income derived as an
5 employee as defined in section 3121 (d) (3) of the Internal Revenue Code.

6 **SECTION 9341. Initial applicability; Revenue.**

7 (1) EARLY STAGE SEED AND ANGEL INVESTMENT CREDITS. The renumbering of
8 sections 71.07 (5b) (d), 71.28 (5b) (d), and 71.47 (5b) (d) of the statutes, ~~the~~
9 amendment of 71.05 (6) (a) 15., 71.21 (4), 71.26 (2) (a), 71.34 (1) (g), 71.45 (2) (a) 10.
10 and 77.92 (4) of the statutes, and the creation of sections 71.07 (5b) (d) 2. and (5d) (d)
11 4., 71.28 (5b) (d) 2., and 71.47 (5b) (d) 2. of the statutes first apply to taxable years
12 beginning on January 1, 2007.

13 (END)

D-Note

**DRAFTER'S NOTE
FROM THE
LEGISLATIVE REFERENCE BUREAU**

LRB-0724/2dn

JK:kjf:zg

Ante

This draft reconciles LRB-0724/1, LRB-1410/1 and LRB-1502/1. All of these drafts should continue to appear in the compiled bill.

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**DRAFTER'S NOTE
FROM THE
LEGISLATIVE REFERENCE BUREAU**

LRB-0724/2dn
JK:kjf:pg

This draft reconciles LRB-0724/1, LRB-1410/1 and LRB-1502/1. All of these drafts should continue to appear in the compiled bill.

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State of Wisconsin
2007 - 2008 LEGISLATURE

LRB-0724/2

JK:kjf:pg

DOA:.....Easton, BB0164 - Changes to angel and early stage seed investment credits

FOR 2007-09 BUDGET -- NOT READY FOR INTRODUCTION

1 AN ACT ...; relating to: the budget.

Analysis by the Legislative Reference Bureau

TAXATION

INCOME TAXATION

This bill makes technical changes to the early stage seed investment and angel investment income and franchise tax credits in order to facilitate the administration of the credits.

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:

2 SECTION 1. 71.07 (5b) (d) of the statutes is renumbered 71.07 (5b) (d) 1.

3 SECTION 2. 71.07 (5b) (d) 2. of the statutes is created to read:

4 71.07 (**5b**) (d) 2. The Wisconsin adjusted basis of any investment for which a
5 credit is claimed under par. (b) shall be reduced by the amount of the credit that is

1 offset against Wisconsin income taxes. The Wisconsin basis of a partner's interest
2 in a partnership, a member's interest in a limited liability company, or stock in a
3 tax-option corporation shall be adjusted to reflect adjustments made under this
4 subdivision.

5 **SECTION 3.** 71.07 (5d) (d) 4. of the statutes is created to read:

6 71.07 (5d) (d) 4. The Wisconsin adjusted basis of any investment for which a
7 credit is claimed under par. (b) shall be reduced by the amount of the credit that is
8 offset against Wisconsin income taxes.

9 **SECTION 4.** 71.28 (5b) (d) of the statutes is renumbered 71.28 (5b) (d) 1.

10 **SECTION 5.** 71.28 (5b) (d) 2. of the statutes is created to read:

11 71.28 (5b) (d) 2. The Wisconsin adjusted basis of any investment for which a
12 credit is claimed under par. (b) shall be reduced by the amount of the credit that is
13 offset against Wisconsin income taxes. The Wisconsin basis of a partner's interest
14 in a partnership, a member's interest in a limited liability company, or stock in a
15 tax-option corporation shall be adjusted to reflect adjustments made under this
16 subdivision.

17 **SECTION 6.** 71.47 (5b) (d) of the statutes is renumbered 71.47 (5b) (d) 1.

18 **SECTION 7.** 71.47 (5b) (d) 2. of the statutes is created to read:

19 71.47 (5b) (d) 2. The Wisconsin adjusted basis of any investment for which a
20 credit is claimed under par. (b) shall be reduced by the amount of the credit that is
21 offset against Wisconsin income taxes. The Wisconsin basis of a partner's interest
22 in a partnership, a member's interest in a limited liability company, or stock in a
23 tax-option corporation shall be adjusted to reflect adjustments made under this
24 subdivision.

25 **SECTION 9341. Initial applicability; Revenue.**

1 (1) EARLY STAGE SEED AND ANGEL INVESTMENT CREDITS. The renumbering of
2 sections 71.07 (5b) (d), 71.28 (5b) (d), and 71.47 (5b) (d) of the statutes and the
3 creation of sections 71.07 (5b) (d) 2. and (5d) (d) 4., 71.28 (5b) (d) 2., and 71.47 (5b)
4 (d) 2. of the statutes first apply to taxable years beginning on January 1, 2007.

5

(END)