Wisconsin Department of Administration
Division of Executive Budget and Finance

Fiscal Estimate - 2013 Session

☒ Original ☐ Updated ☐ Corrected ☐ Supplemental

LRB Number 13-4167/1	Introduction Number SB-696

Description
Increasing the claim amounts and altering various eligibility criteria under the angel and early stage seed investment credits, authorizing the transfer of angel investment tax credits, and creating a tax credit for purchases made from qualified new business ventures

Fiscal Effect

State:
☐ No State Fiscal Effect
☐ Indeterminate
☐ Increase Existing Appropriations
☐ Decrease Existing Appropriations
☐ Create New Appropriations
☐ Increase Existing Revenues
☒ Decrease Existing Revenues
☒ Increase Costs - May be possible to absorb within agency's budget ☒ Yes ☐ No
☐ Decrease Costs

Local:
☐ No Local Government Costs
☐ Indeterminate
1. ☐ Increase Costs ☐ Permissive ☐ Mandatory
2. ☐ Decrease Costs ☐ Permissive ☐ Mandatory
3. ☐ Increase Revenue ☐ Permissive ☐ Mandatory
4. ☐ Decrease Revenue ☐ Permissive ☐ Mandatory
5. Types of Local Government Units Affected
☐ Towns ☐ Village ☐ Cities
☐ Counties ☐ Others
☐ School Districts ☐ WTCS Districts

Fund Sources Affected
☐ GPR ☐ FED ☐ PRO ☐ PRS ☐ SEG ☐ SEGS

Affected Ch. 20 Appropriations

Agency/Prepared By	Authorized Signature	Date
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Fiscal Estimate Narratives

DOR 4/2/2014

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Assumptions Used in Arriving at Fiscal Estimate

The bill would make a number of changes to the early stage seed investment tax credit and the angel investment tax credit program, including the following:

1. Under current law, a taxpayer may claim an early stage seed investment tax credit equal to 25% of the taxpayer's investment paid to a fund manager that the fund manager invests in a qualified new business venture, as certified by the Wisconsin Economic Development Corporation (WEDC). Also, under current law, a taxpayer may claim an angel investment tax credit equal to 25% of the taxpayer's investment in a qualified new business venture. Under the bill, for taxable years that begin after December 31, 2013, with regard to the first $1,000,000 invested by the taxpayer, a taxpayer may claim an early stage seed investment credit or an angel investment credit equal to 40% of the taxpayer's investment and, with regard to any amount invested after that first $1,000,000, the taxpayer may claim a credit equal to 25% of the taxpayer's investment.

2. Under current law, WEDC may certify a business as a qualified new business venture (QNBV) if, among other eligibility criteria, the business is not primarily engaged in real estate development, insurance, banking, lending, lobbying, political consulting, professional services provided by attorneys, accountants, business consultants, physicians, or health care consultants, wholesale or retail trade, leisure, hospitality, transportation, or, with one exception, construction. Under the bill only a business primarily engaged lobbying or political consulting would be prohibited from being certified as a QNBV, subject to the other criteria.

3. Under current law, a person awarded an early stage seed investment tax credit may sell or otherwise transfer the credit to another Wisconsin taxpayer, but a person awarded the angel investment tax credit may not transfer that credit to another person. Under the bill, a person awarded the angel investment tax credit may sell or otherwise transfer the credit to another Wisconsin taxpayer.

4. Under current law, in determining whether to certify an investment fund manager for purposes of the early stage seed investment tax credit, WEDC is required to consider, among other factors, the expected level of investment in the investment fund to be managed by the investment fund manager. The bill would prohibit WEDC from considering that factor.

The bill also creates a non-refundable tax credit equal to 25% of the sales price of goods and services that the taxpayer purchases from a qualified new business venture, as certified by WEDC. The maximum amount that a taxpayer may claim as a credit for such purchases in a taxable year is $125,000. Only corporations and insurers may claim the credit. Unused credits may be carried forward for 15 years.

Fiscal Estimate

Increasing the Percentage of the Angel and Early Stage Seed Credits:
From 2010 through 2012, WEDC certified an average of $10.3 million in combined Angel and Early Stage Seed Credits. Based on a review of tax returns that claimed these credits, almost all of the credits are certified for investments of less than $1 million and would therefore be eligible for a 40% credit under the bill. Assuming that certifications continue to be primarily for investments of $1 million or less, and assuming a 5% annual growth in certifications, the bill would result in additional credit claims of $6.8 in calendar year 2014, $7.1 million in calendar year 2015, and $7.6 million in calendar year 2016. Based on a review of tax returns that claimed the Angel and Early Stage Seed credits, approximately 74% of the credits claimed in a year are used to offset taxes. Based on this, and assuming that the bill is enacted after the June 15, 2014 estimated payment due date, the provisions of the bill that would increase the credit from 25% to 40% for investments of $1 million or less would result in a revenue decrease of an estimated $8.6 million in FY 2015,

$7.2 million in FY 2016, and $7.6 million in FY 2017. The fiscal effect could be higher to the extent that other provisions in the bill increase the amount of credit that is certified.

Changes in Types of Business That May Be Certified as a QNBV:
The bill expands the types of businesses that may apply to be certified as a QNBV. As such, it an be assumed that more businesses would apply and be certified. It can further be assumed that this would result in more investments being eligible for the Angel and Early Stage Seed credits. The fiscal effect of this provision would depend entirely on how many new credits would be certified for investments in these newly-eligible QNBVs. However, data do not exist to estimate the increase in credit certifications. Therefore the provision of the bill expanding eligibility to be certified as a QNBV would result in a decrease in revenue of an unknown amount.

Allow Transfers of Angel Investment Credits:
Based on data from WEDC, there were 13 requests to transfer a total of $2.6 million in Early Stage Seed Credits during the first five years that transfers were allowed under that program. This represents approximately 14.7% of the total credit certified during the same period. Assuming that credits that are transferred would have otherwise gone unused and therefore represent a revenue loss as compared to current law, and assuming that the same proportion of Angel credit is transferred as has been transferred under the Early Stage Seed Program, and assuming the bill is enacted after the June 15, 2014 estimated payment due date, the provisions of the bill that would allow the Angel Investment Credit to be transferred or sold would result in a revenue loss of an estimated $2.1 million in FY 2015, $1.7 million in FY 2016, and $1.8 million in FY 2017. The fiscal effect could be higher to the extent that other provisions in the bill increase the amount of credit that is certified.

Changes in Certifications of Fund Managers:
It is assumed that the provisions of the bill that would disallow WEDC from considering the expected amount of investments in certifying fund managers under the Early Stage Seed Program would result in more fund managers being certified. Based on information from WEDC, it is assumed that this provision would not result in a significant number of new investment managers being certified or a significant increase in credits being issued. Therefore the fiscal effect of the provision is assumed to be minimal.

Credit for Purchases from QNBVs:
Data do not exist to estimate the fiscal effect of providing a credit for purchases from QNBVs. It would depend entirely on the number of businesses certified as QNBVs and the purchases by corporations and insurance companies from the businesses as certified by WEDC. However, the new purchases credit would provide an incentive for businesses to be certified as a QNBV even if they do not intend to seek investments under the Angel and Early Stage Seed program. Customers could receive the new credit for purchases from the QNBV, regardless if the QNBV-certified business was actively seeking investments.

Long-Range Fiscal Implications

Provision	Fiscal Effect (millions) 2015	2016	2017
Increase Credit Percentage	-8.6	-7.2	-7.6
Eligible Business Type	Unknown	Unknown	Unknown
Transfers of Angel Credit	-2.1	-1.7	-1.8
Fund Manager Change	Minimal	Minimal	Minimal
Credit for Purchases	Unknown	Unknown	Unknown

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Fiscal Estimate Worksheet - 2013 Session

Detailed Estimate of Annual Fiscal Effect

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I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):

II. Annualized Costs:	**Annualized Fiscal Impact on funds from:**	
	Increased Costs	Decreased Costs
A. State Costs by Category		
State Operations - Salaries and Fringes	$	$
(FTE Position Changes)		
State Operations - Other Costs		
Local Assistance		
Aids to Individuals or Organizations		
TOTAL State Costs by Category	**$**	**$**
B. State Costs by Source of Funds		
GPR		
FED		
PRO/PRS		
SEG/SEG-S		

III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, ets.)		
	Increased Rev	Decreased Rev
GPR Taxes	$	$
GPR Earned		
FED		
PRO/PRS		
SEG/SEG-S		
TOTAL State Revenues	**$**	**$**

NET ANNUALIZED FISCAL IMPACT

	State	Local
NET CHANGE IN COSTS	$	$
NET CHANGE IN REVENUE	$See Text	$

Agency/Prepared By	**Authorized Signature**	**Date**
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