

2015 DRAFTING REQUEST

Bill

Received: 12/8/2015 Received By: jkreye
For: Alberta Darling (608) 266-5830 Same as LRB:
May Contact: By/Representing: deej
Subject: Tax, Business - credits Drafter: jkreye
Addl. Drafters:
Extra Copies: KRP
MPG

Submit via email: NO
Requester's email:
Carbon copy (CC) to:

Pre Topic:

No specific pre topic given

Topic:

Industry cluster research and development tax credit

Instructions:

See attached

Drafting History:

<u>Vers.</u>	<u>Drafted</u>	<u>Reviewed</u>	<u>Proofed</u>	<u>Submitted</u>	<u>Jacketed</u>	<u>Required</u>
/P1	jkreye 1/4/2016	anienaja 12/11/2015	_____	sbasford 12/11/2015		State
/1		anienaja 1/4/2016	_____	sbasford 1/4/2016	sbasford 1/4/2016	State

FE Sent For:

at
intro

<END>

2015 DRAFTING REQUEST

Bill

Received: 12/8/2015 Received By: jkreye
For: Alberta Darling (608) 266-5830 Same as LRB:
May Contact: By/Representing: deej
Subject: Tax, Business - credits Drafter: jkreye
Addl. Drafters:
Extra Copies: KRP
MPG

*Please jacket
now!
Joe*

Submit via email: NO
Requester's email:
Carbon copy (CC) to:

Pre Topic:

No specific pre topic given

Topic:

Industry cluster research and development tax credit

Instructions:

See attached

Drafting History:

<u>Vers.</u>	<u>Drafted</u>	<u>Reviewed</u>	<u>Proofed</u>	<u>Submitted</u>	<u>Jacketed</u>	<u>Required</u>
/P1	jkreye 12/9/2015	anienaja 12/11/2015	_____	sbasford 12/11/2015		State

FE Sent For:

<END>

Industry Cluster R&D Tax Credit

Overview

This initiative would create a nonrefundable tax credit for qualified research expenses incurred as part of a specific industry cluster support strategy. This tax credit would work in conjunction with the proposed industry cluster support initiative, to provide an economic incentive for businesses to invest in research and development and locate their research and development operations in Wisconsin. The tax credit will help industry cluster support organizations, including the Water Council, to facilitate quicker product development and start-up formation by working with industry partners to define and prioritize research expenditures. The tax credit will also help these organizations expand existing partnerships between business and academic researchers in a manner that supports commercialization through addressing market needs.

Tie the Tax Credit to a Specific Economic Development Strategy

With the exception of tax credits related to internal combustion engines and certain energy efficient products, Wisconsin's current research credit is general in nature and is not linked to any overall strategy to support key industries.

By linking the availability of tax credits to an approved industry cluster support strategy, the state can leverage the leadership of a qualified industry cluster support organization to ensure that tax incentives are utilized in alignment with an overall strategy to support key industries. The cluster support organization can help ensure that tax incentives are part of a coordinated effort within that industry to support product development, commercialization, start-up formation, and workforce development.

Require a Qualified Industry Cluster Support Organization to Review and Recommend Credit Applications for Approval by WEDC

By limiting the tax credits only to those industry clusters that have a qualified industry cluster support organization, the state will provide a strong incentive to private industry to form a cluster support organization that meets rigorous standards that best support that industry. In addition, as noted above, the support organization can then lead the deployment of the tax credits within the industry in support of the overall economic development strategy that is approved. To further ensure that credits are used in alignment with overall industry strategy, the law should require the Qualified Industry Cluster Support Organization, which reviews applications to be a participant in a federally authorized Industry/University Cooperative Research Center (IUCRC). An IUCRC is a rigorous research partnership between industry and universities, in collaboration with the National Science Foundation, which features high-quality, industrially relevant fundamental research, strong industrial support of and collaboration in research and education, and direct transfer of university developed ideas, research results, and technology to U.S. industry. As an example, the Water Council participates in an IUCRC along with water 12 technology companies, the University of Wisconsin-Milwaukee and Marquette University.

Require a Company to Have a Wisconsin Presence and Pay Wisconsin Taxes

Because a key policy objective of this initiative is to grow and expand existing industry clusters in Wisconsin, this tax credit should be available only to businesses that pay taxes in Wisconsin and have a physical presence in Wisconsin.

Existing Tax Credits Are Not Effective

The current general research tax credit in Wisconsin is 5.75% of the amount by which the claimant's research expenses exceed 50% of the claimant's average research expenses over the prior 3 years. This structure creates a perverse set of incentives, encouraging companies to do R&D in Wisconsin in a 3 year on, 3 year off cycle. During the off years, R&D expenditures are diverted to other states and/or countries. Over time, this framework leads companies to avoid doing R&D in Wisconsin at all and discourages any company from establishing an ongoing R&D operation in Wisconsin.

Alternatively, the current Qualified New Business Venture tax credit provides a 25% tax credit for equity investments in qualified start-ups. It may be possible for a company to utilize this tax credit for R&D, but only if the company spins off a research project, the project is somehow established as a new business venture (i.e., a separate company), and all the other qualifications are met. Most companies would likely choose the more straightforward approach instead: locate R&D activities in a state that provides a clean R&D tax credit.

Amount of Tax Credit

Research and Development under this proposal would be certified by a qualified industry cluster support organization as being in alignment with the overall industry development strategy. As such, the R&D would be largely targeted toward discoveries that lead to the development of new technologies and marketable products. Experience has shown that a large portion of this R&D will lead to new start-ups, as has been the case in the Water Technology Cluster.

Given this relationship to new start-ups, the Industry Cluster R&D Tax Credit should match that of the Qualified New Business Venture tax credit: 25% of R&D expenditures. Such a tax credit will likely encourage CEO's within a particular industry cluster to relocate and/or expand R&D operations in Wisconsin, as well as provide an incentive to increase joint industry and academic R&D, both of which the current tax credit framework discourages.

*Who?
Anybody besides
Water Council?*



State of Wisconsin
2015 - 2016 LEGISLATURE

LRB-4058/P1

JK:...

amr

PRELIMINARY DRAFT - NOT READY FOR INTRODUCTION

*SA ✓
Xref ✓*

*due
Friday
12-11*

Gen. ✓

1 **AN ACT ...; relating to: an industry cluster research and development tax credit.**

Analysis by the Legislative Reference Bureau

This bill creates an income and franchise tax credit equal to 25 percent of a taxpayer's qualified research expenses for research conducted in this state, if the research is approved by an industry cluster partnership. An industry cluster partnership is, generally, a nonprofit organization that primarily assists in developing and supporting a regional concentration of private sector businesses that share a common interest in fostering industry-specific research and development.

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 (4k) (a) 1m. of the statutes is created to read:

3 71.07 (4k) (a) 1m. "Industry cluster partnership" means a nonprofit
4 organization that satisfies all of the following conditions:

5 a. Its primary purpose is to assist in developing and supporting a regional
6 concentration of private sector businesses in this state that share a common interest

1 in fostering industry-specific research and development, worker skills training, and
2 market development.

3 b. It collaborates with institutions of higher education, in this state, including
4 technical colleges, for the purpose of transferring to the private sector, and
5 commercializing, technology^{and} developed at those institutions that is related to specific
6 industries.

7 c. It is governed by a board of directors with members from the public and
8 private sectors who represent the industries and interests necessary to ensure a
9 collaborative, strategic approach to supporting economic development, job growth,
10 and the development of marketable products and services in a specific industry.

11 d. It is a participant in the national science foundation's industry and
12 university cooperative research center program.

****NOTE: We created this definition from the materials you sent to us and from our own research related to industry clusters.

13 SECTION 2. 71.07 (4k) (b) ^{et} 4. of the statutes is created to read:

14 ~~71.07 (4k)~~ (b) ^{et} 4. For taxable years beginning after December 31, 2015, an
15 individual, a partner of a partnership, a shareholder of a tax-option corporation, or
16 a member of a limited liability company may claim a credit against the tax imposed
17 under s. 71.02 or 71.08, as allocated under par. (d), an amount equal to 25 percent
18 of the individual's, partnership's, tax-option corporation's, or limited liability
19 company's qualified research expenses, as defined in section 41 of the Internal
20 Revenue Code, incurred for research conducted in this state for the taxable year, if
21 the research is approved by an industry cluster partnership. For purposes of
22 determining the amount of a person's qualified research expenses under this
23 subdivision, the person may elect the alternative computation under section 41 (c)

1 (4) of the Internal Revenue Code and that election applies until the department
2 permits its revocation. Section 41 (h) of the Internal Revenue Code does not apply
3 to the credit under this subdivision.

****NOTE: WEDC has no role in certifying research and development credits under current law s. 71.07 (4k) (b). Consistent with current law, this draft does not require WEDC to certify the credits for research approved by the industry cluster partnership.

4 **SECTION 3.** 71.07 (4k) (e) of the statutes is renumbered 71.07 (4k) (e) 1.

5 **SECTION 4.** 71.07 (4k) (e) 2. of the statutes is created to read:

6 ~~71.07 (4k)~~ (e) 2. A person who files a claim under par. (b) ^{et} shall include with
7 the person's return a copy of the person's approval from the industry cluster
8 partnership.

9 **SECTION 5.** 71.28 (4) (ab) 1m. of the statutes is created to read:

10 ~~71.28 (4)~~ (ab) 1m. "Industry cluster partnership" means a nonprofit
11 organization that satisfies all of the following conditions:

12 a. Its primary purpose is to assist in developing and supporting a regional
13 concentration of private sector businesses in this state that share a common interest
14 in fostering industry-specific research and development, worker skills training, and
15 market development.

16 b. It collaborates with institutions of higher education in this state, including
17 technical colleges, for the purpose of transferring to the private sector, and
18 commercializing, technology ^{and} developed at those institutions that is related to specific
19 industries.

20 c. It is governed by a board of directors with members from the public and
21 private sectors who represent the industries and interests necessary to ensure a
22 collaborative, strategic approach to supporting economic development, job growth,
23 and the development of marketable products and services in a specific industry.

1 d. It is a participant in the national science foundation's industry and
2 university cooperative research center program.

****NOTE: We created this definition from the materials you sent to us and from our own research related to industry clusters.

3 SECTION 6. 71.28 (4) (ad) 4. of the statutes is created to read:

4 71.28 (4) (ad) 4. For taxable years beginning after December 31, 2015, a
5 corporation may claim a credit against the tax imposed under s. 71.23 an amount
6 equal to 25 percent of the corporation's qualified research expenses, as defined in
7 section 41 of the Internal Revenue Code, incurred for research conducted in this state
8 for the taxable year, if the research is approved by an industry cluster partnership.
9 For purposes of determining the amount of a corporation's qualified research
10 expenses under this subdivision, the corporation may elect the alternative
11 computation under section 41 (c) (4) of the Internal Revenue Code and that election
12 applies until the department permits its revocation. Section 41 (h) of the Internal
13 Revenue Code does not apply to the credit under this subdivision.

****NOTE: WEDC has no role in certifying research and development credits under current law s. 71.28 (4) (ad). Consistent with current law, this draft does not require WEDC to certify the credits for research approved by the industry cluster partnership.

14 SECTION 7. 71.28 (4) (g) of the statutes is renumbered 71.28 (4) (g) 1.

15 SECTION 8. 71.28 (4) (g) 2. of the statutes is created to read:

16 71.28 (4) (g) 2. A corporation that files a claim under par. (ad) 4. shall include
17 with the corporation's return a copy of the person's approval from the industry
18 cluster partnership.

19 SECTION 9. 71.47 (4) (ab) 1m. of the statutes is created to read:

20 71.47 (4) (ab) 1m. "Industry cluster partnership" means a nonprofit
21 organization that satisfies all of the following conditions:

1 a. Its primary purpose is to assist in developing and supporting a regional
2 concentration of private sector businesses in this state that share a common interest
3 in fostering industry-specific research and development, worker skills training, and
4 market development.

5 b. It collaborates with institutions of higher education in this state, including
6 technical colleges, for the purpose of transferring to the private sector, and
7 commercializing, technology^{and} developed at those institutions that is related to specific
8 industries.

9 c. It is governed by a board of directors with members from the public and
10 private sectors who represent the industries and interests necessary to ensure a
11 collaborative, strategic approach to supporting economic development, job growth,
12 and the development of marketable products and services in a specific industry.

13 d. It is a participant in the national science foundation's industry and
14 university cooperative research center program.

****NOTE: We created this definition from the materials you sent to us and from our own research related to industry clusters.

15 SECTION 10. 71.47 (4) (ad) ⁴ of the statutes is created to read:

16 71.47 (4) (ad) ⁴ For taxable years beginning after December 31, 2015, a
17 corporation may claim a credit against the tax imposed under s. 71.43 an amount
18 equal to 25 percent of the corporation's qualified research expenses, as defined in
19 section 41 of the Internal Revenue Code, incurred for research conducted in this state
20 for the taxable year, if the research is approved by an industry cluster partnership.
21 For purposes of determining the amount of a corporation's qualified research
22 expenses under this subdivision, the corporation may elect the alternative
23 computation under section 41 (c) (4) of the Internal Revenue Code and that election

1 applies until the department permits its revocation. Section 41 (h) of the Internal
2 Revenue Code does not apply to the credit under this subdivision.

****NOTE: WEDC has no role in certifying research and development credits under current law s. 71.47 (4) (ad). Consistent with current law, this draft does not require WEDC to certify the credits for research approved by the industry cluster partnership.

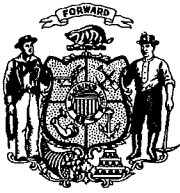
3 **SECTION 11.** 71.47 (4) (g) of the statutes is renumbered 71.47 (4) (g) 1.

4 **SECTION 12.** 71.47 (4) (g) 2. of the statutes is created to read:

5 71.47 (4) (g) 2. A corporation that files a claim under par. (ad) shall include
6 with the corporation's return a copy of the person's approval from the industry
7 cluster partnership.

8

(END)



State of Wisconsin
2015 - 2016 LEGISLATURE

LRB-4058/P1
JK:amn

PRELIMINARY DRAFT - NOT READY FOR INTRODUCTION

SA ✓

E

Today 1-4

1 AN ACT to renumber 71.07 (4k) (e), 71.28 (4) (g) and 71.47 (4) (g); and to create
2 71.07 (4k) (a) 1m., 71.07 (4k) (b) 7., 71.07 (4k) (e) 2., 71.28 (4) (ab) 1m., 71.28 (4)
3 (ad) 7., 71.28 (4) (g) 2., 71.47 (4) (ab) 1m., 71.47 (4) (ad) 7. and 71.47 (4) (g) 2.
4 of the statutes; relating to: an industry cluster research and development tax
5 credit.

Analysis by the Legislative Reference Bureau

This bill creates an income and franchise tax credit equal to 25 percent of a taxpayer's qualified research expenses for research conducted in this state, if the research is approved by an industry cluster partnership. An industry cluster partnership is, generally, a nonprofit organization that primarily assists in developing and supporting a regional concentration of private sector businesses that share a common interest in fostering industry-specific research and development.

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:

6 SECTION 1. 71.07 (4k) (a) 1m. of the statutes is created to read:

1 71.07 (4k) (a) 1m. “Industry cluster partnership” means a nonprofit
2 organization that satisfies all of the following conditions:

3 a. Its primary purpose is to assist in developing and supporting a regional
4 concentration of private sector businesses in this state that share a common interest
5 in fostering industry-specific research and development, worker skills training, and
6 market development.

7 b. It collaborates with institutions of higher education, including technical
8 colleges, in this state for the purpose of transferring to the private sector, and
9 commercializing, technology related to specific industries and developed at those
10 institutions.

11 c. It is governed by a board of directors with members from the public and
12 private sectors who represent the industries and interests necessary to ensure a
13 collaborative, strategic approach to supporting economic development, job growth,
14 and the development of marketable products and services in a specific industry.

15 d. It is a participant in the national science foundation’s industry and
16 university cooperative research center program.

****NOTE: We created this definition from the materials you sent to us and from our
own research related to industry clusters.

17 **SECTION 2.** 71.07 (4k) (b) 7. of the statutes is created to read:

18 71.07 (4k) (b) 7. For taxable years beginning after December 31, 2015, an
19 individual, a partner of a partnership, a shareholder of a tax-option corporation, or
20 a member of a limited liability company may claim a credit against the tax imposed
21 under s. 71.02 or 71.08, as allocated under par. (d), an amount equal to 25 percent
22 of the individual’s, partnership’s, tax-option corporation’s, or limited liability
23 company’s qualified research expenses, as defined in section 41 of the Internal

1 Revenue Code, incurred for research conducted in this state for the taxable year, if
2 the research is approved by an industry cluster partnership. For purposes of
3 determining the amount of a person's qualified research expenses under this
4 subdivision, the person may elect the alternative computation under section 41 (c)
5 (4) of the Internal Revenue Code and that election applies until the department
6 permits its revocation. Section 41 (h) of the Internal Revenue Code does not apply
7 to the credit under this subdivision.

****NOTE: WEDC has no role in certifying research and development credits under current law s. 71.07 (4k) (b). Consistent with current law, this draft does not require WEDC to certify the credits for research approved by the industry cluster partnership.

8 **SECTION 3.** 71.07 (4k) (e) of the statutes is renumbered 71.07 (4k) (e) 1.

9 **SECTION 4.** 71.07 (4k) (e) 2. of the statutes is created to read:

10 71.07 (4k) (e) 2. A person who files a claim under par. (b) 7. shall include with
11 the person's return a copy of the person's approval from the industry cluster
12 partnership.

13 **SECTION 5.** 71.28 (4) (ab) 1m. of the statutes is created to read:

14 71.28 (4) (ab) 1m. "Industry cluster partnership" means a nonprofit
15 organization that satisfies all of the following conditions:

16 a. Its primary purpose is to assist in developing and supporting a regional
17 concentration of private sector businesses in this state that share a common interest
18 in fostering industry-specific research and development, worker skills training, and
19 market development.

20 b. It collaborates with institutions of higher education, including technical
21 colleges, in this state for the purpose of transferring to the private sector, and
22 commercializing, technology related to specific industries and developed at those
23 institutions.

1 c. It is governed by a board of directors with members from the public and
2 private sectors who represent the industries and interests necessary to ensure a
3 collaborative, strategic approach to supporting economic development, job growth,
4 and the development of marketable products and services in a specific industry.

5 d. It is a participant in the national science foundation's industry and
6 university cooperative research center program.

****NOTE: We created this definition from the materials you sent to us and from our
own research related to industry clusters.

7 **SECTION 6.** 71.28 (4) (ad) 7. of the statutes is created to read:

8 71.28 (4) (ad) 7. For taxable years beginning after December 31, 2015, a
9 corporation may claim a credit against the tax imposed under s. 71.23 an amount
10 equal to 25 percent of the corporation's qualified research expenses, as defined in
11 section 41 of the Internal Revenue Code, incurred for research conducted in this state
12 for the taxable year, if the research is approved by an industry cluster partnership.
13 For purposes of determining the amount of a corporation's qualified research
14 expenses under this subdivision, the corporation may elect the alternative
15 computation under section 41 (c) (4) of the Internal Revenue Code and that election
16 applies until the department permits its revocation. Section 41 (h) of the Internal
17 Revenue Code does not apply to the credit under this subdivision.

****NOTE: WEDC has no role in certifying research and development credits under
current law s. 71.28 (4) (ad). Consistent with current law, this draft does not require
WEDC to certify the credits for research approved by the industry cluster partnership.

18 **SECTION 7.** 71.28 (4) (g) of the statutes is renumbered 71.28 (4) (g) 1.

19 **SECTION 8.** 71.28 (4) (g) 2. of the statutes is created to read:

20 71.28 (4) (g) 2. A corporation that files a claim under par. (ad) 7. shall include
21 with the corporation's return a copy of the person's approval from the industry
22 cluster partnership.

1 **SECTION 9.** 71.47 (4) (ab) 1m. of the statutes is created to read:

2 71.47 (4) (ab) 1m. “Industry cluster partnership” means a nonprofit
3 organization that satisfies all of the following conditions:

4 a. Its primary purpose is to assist in developing and supporting a regional
5 concentration of private sector businesses in this state that share a common interest
6 in fostering industry-specific research and development, worker skills training, and
7 market development.

8 b. It collaborates with institutions of higher education, including technical
9 colleges, in this state for the purpose of transferring to the private sector, and
10 commercializing, technology related to specific industries and developed at those
11 institutions.

12 c. It is governed by a board of directors with members from the public and
13 private sectors who represent the industries and interests necessary to ensure a
14 collaborative, strategic approach to supporting economic development, job growth,
15 and the development of marketable products and services in a specific industry.

16 d. It is a participant in the national science foundation’s industry and
17 university cooperative research center program.

****NOTE: We created this definition from the materials you sent to us and from our
own research related to industry clusters.

18 **SECTION 10.** 71.47 (4) (ad) 7. of the statutes is created to read:

19 71.47 (4) (ad) 7. For taxable years beginning after December 31, 2015, a
20 corporation may claim a credit against the tax imposed under s. 71.43 an amount
21 equal to 25 percent of the corporation’s qualified research expenses, as defined in
22 section 41 of the Internal Revenue Code, incurred for research conducted in this state
23 for the taxable year, if the research is approved by an industry cluster partnership.

1 For purposes of determining the amount of a corporation's qualified research
2 expenses under this subdivision, the corporation may elect the alternative
3 computation under section 41 (c) (4) of the Internal Revenue Code and that election
4 applies until the department permits its revocation. Section 41 (h) of the Internal
5 Revenue Code does not apply to the credit under this subdivision.

****NOTE: WEDC has no role in certifying research and development credits under current law s. 71.47 (4) (ad). Consistent with current law, this draft does not require WEDC to certify the credits for research approved by the industry cluster partnership.

6 **SECTION 11.** 71.47 (4) (g) of the statutes is renumbered 71.47 (4) (g) 1.

7 **SECTION 12.** 71.47 (4) (g) 2. of the statutes is created to read:

8 71.47 (4) (g) 2. A corporation that files a claim under par. (ad) 7. shall include
9 with the corporation's return a copy of the person's approval from the industry
10 cluster partnership.

11 (END)