



## Legislative Fiscal Bureau

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February 13, 2018

TO: Members  
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Assembly Bill 489 and Senate bill 398 -- Increase the Investment Limit for Qualified New Business Ventures

Assembly Bill 489 was introduced on September 7, 2017, and was referred to the Assembly Committee on Jobs and the Economy. On November 6, 2017, that committee recommended passage of the bill on a vote of 12 to 0. The bill was passed by the Assembly on November 9, 2017, and messaged to the Senate. The bill was referred to the Senate Committee on Revenue, Financial Institutions, and Rural Issues, and was recommended for passage by that committee on a vote of 5-0 on January 10, 2018. The bill was referred to the Joint Committee on Finance on January 19, 2018.

Senate Bill 398 is an identical companion bill to AB 489. The bill was introduced on August 31, 2017, and was referred to the Senate Committee on Revenue, Financial Institutions, and Rural Issues. On January 10, 2018, the bill was recommended for passage by that committee on a vote of 5 to 0.

### **BACKGROUND**

The early stage business investment program includes two nonrefundable tax credits: (a) the angel investment credit, which can be claimed under the individual income tax; and (b) the early stage seed investment credit, which can be claimed under the individual income tax, the corporate income/franchise tax, and the insurance premiums tax. For purposes of this paper, the two credits are jointly referred to as "investment credits."

The angel investment credit equals 25% of the claimant's bona fide angel investment made directly in a qualified new business venture (QNBV) certified by the Wisconsin Economic Development Corporation (WEDC). The early stage seed investment credit is equal to 25% of the claimant's investment paid to a certified fund manager that the fund manager invests in a QNBV. In order for a business to be certified as a QNBV, the business must meet certain statutory criteria,

such as being headquartered in Wisconsin, having the potential for increasing jobs and/or capital investment in Wisconsin, and being engaged in certain targeted industries. The aggregate amount of investments in any one QNBV that may qualify for investment credits is \$8.0 million (\$2.0 million of investment credits). Investments in a QNBV must be maintained for at least three years. The annual limit on the amount of investment credits that WEDC can verify is \$30 million per calendar year.

The Governor recommended a provision when submitting the 2017-19 biennial budget to increase the amount of investments that could qualify for investment credits that a QNBV can receive, beginning with taxable years starting after December 31, 2016, from \$8.0 million to \$12.0 million (from \$2.0 million of investment credits to \$3.0 million). This office prepared 2017 Budget Paper #298 for the Joint Committee on Finance, which reestimated the fiscal effect of that provision to reduce state tax revenues by \$5.0 million in 2017-18, \$7.4 million in 2018-19, \$2.4 million in 2019-20, and \$2.0 million in 2020-21. The Governor's recommendation was removed by the Committee during deliberation of the state budget. The Governor had recommended a similar provision when submitting the 2015-17 biennial budget, which was described in 2015 Budget Paper #326 and was also removed by the Committee.

## **SUMMARY OF BILLS**

The bills would increase the maximum amount of investments that qualify for investment credits that a QNBV can receive, beginning with taxable years starting after December 31, 2017, from \$8.0 million to \$12.0 million (from \$2.0 million of investment credits to \$3.0 million).

The provision in the bills is identical to the provision previously recommended by the Governor, except that the provision first applies for tax year 2018 (rather than 2017).

## **FISCAL EFFECT**

The fiscal note submitted by the Department of Revenue (DOR) indicated that the bills would reduce state tax revenues by \$335,000 in 2017-18, \$1.5 million in 2018-19, \$2.0 million in 2019-20, and \$2.2 million in 2020-21. However, DOR's estimate appears to only account for new QNBVs, but not existing QNBVs at or near the current investment limit that could raise funding eligible for additional investment credits under the higher limit.

Based on information provided by WEDC on February 9, 2018, 14 businesses are at or near the current investment limit, 11 of which are currently certified as QNBVs and three of which are no longer certified. When this office prepared Budget Paper #298 last spring, only 12 businesses (11 active and one decertified) were at or near the investment limit. Using a similar methodology and the updated data provided by WEDC, it is estimated that enacting the provision under the bills would reduce state tax revenues by \$5.0 million in 2018-19, \$7.7 million in 2019-20, \$2.7 million in 2020-21, and \$2.0 million in 2021-22.

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