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Modifications to the Early Stage Business Investment Program (General Fund Taxes -- Income and Franchise Taxes)

[LFB 2015-17 Budget Summary: Page 181, #12 and Page 183, #14]

CURRENT LAW

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

Angel Investment Tax Credit. The angel investment tax 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 maximum aggregate amount of angel investment tax credits that can be claimed for a tax year is $20 million, plus an additional $250,000 for tax credits claimed for investments in nanotechnology businesses.

Early Stage Seed Investment Tax Credit. The early stage seed investment tax credit is equal to 25% of the claimant's investment paid in the tax year to a certified fund manager that the fund manager invests in a QNBV certified by WEDC. The maximum aggregate amount of early stage seed investment tax credits that can be claimed for a tax year is $20.5 million, plus an additional $250,000 for tax credits claimed for investments in nanotechnology businesses.

The aggregate amount of investment in any one QNBV that may qualify for angel investment or early stage seed investment tax credits is $8.0 million. Investments in a QNBV must be maintained in the business by an angel investor, angel investment network, or certified fund manager for at least three years.

WEDC is required to certify QNBVs and fund managers and to perform other administrative functions related to the allocation and transfer of credits, revocation of certifications, verification of investments and credits, and processing and compiling reports. Businesses and fund managers must apply to WEDC to be certified.

Qualified New Business Venture. A business may be certified as a QNBV by WEDC only if it meets all of the following conditions:

a. It has its headquarters in Wisconsin.

b. At least 51% of its employees are employed in the state.

c. It has the potential for increasing jobs and/or capital investment in Wisconsin and the business is engaged in, or has committed to engage in, innovation in any of the following: (1) manufacturing, biotechnology, nanotechnology, communications, agriculture, or clean energy creation or storage technology; (2) processing or assembling products, including medical devices, pharmaceuticals, computer software, computer hardware, semiconductors, any other innovative technology products, or other products that are produced using manufacturing methods that are enabled by applying proprietary technology; or (3) services that are enabled by applying proprietary technology.

d. It has the potential for increasing jobs and/or capital investment in Wisconsin and it is undertaking pre-commercialization activity related to proprietary technology that includes conducting research, developing a new product or business process, or developing a service that is principally reliant on applying proprietary technology.

e. 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 construction (except construction of power plants that derive energy from a renewable resource).

f. It has fewer than 100 employees, at the time of initial certification.

g. The business has not been operating in Wisconsin for more than 10 consecutive years, at the time of initial certification.

h. It has not received aggregate private equity investments of more than $10.0 million, at the time of initial certification.

i. It has not received more than $8.0 million in investments that have qualified for tax credits under the program.

In addition, in determining whether to certify a business, WEDC considers at least the following factors: (a) whether the business is in one of Wisconsin's targeted industries; (b) high growth potential of the business; (c) management team experience; (d) financial need; (e) percentage of funds that will be spent in Wisconsin; (f) barriers to entry; and (g) innovative or novel product or process.

Certified Fund Manager. In order to be eligible for investments that qualify for early stage seed investment tax credits, the fund manager must be certified by WEDC. The Corporation is required to consider certain past experience and performance measures when determining whether to certify an investment fund manager. In addition, WEDC evaluates certain factors when determining whether to certify a fund manager, including geographic distribution of funds, to what industry funds are targeted, and what management fees are charged by the fund manager. WEDC is required to notify the Department of Revenue (DOR) of every certification issued, as well as whether the certification of a business or fund manager has been revoked.

Angel investors, angel investor networks, and venture capital funds must follow a verification process in order to receive tax credits based on eligible investments. For each investment in the QNBV, the angel investor, angel investment network, or certified fund manager is required to provide WEDC with a copy of its investor agreement and proof of investment. Certain criteria apply for an investment to be deemed eligible to receive a credit. Based on a review of submitted materials, WEDC issues a verification form to the angel investor, angel investment network, or certified fund manager stating the amount of credits that may be claimed. Investors must submit a copy of the certification for tax benefits and the verification form, including the amount of tax benefits that may be claimed and the date and amount of the investment, with the investor's tax return. WEDC can revoke the verification of tax credits if the investment in the QNBV is not maintained for a minimum of three years, with certain exceptions.

Credit Limits. If the demand for angel investment or early stage seed investment tax credits exceeds the annual aggregate limit, WEDC may reserve tax credits from the following year for qualifying investments. Conversely, the Corporation, in consultation with DOR, is authorized to carry forward unclaimed angel and early stage investment tax credits to future tax years. In addition, WEDC can reallocate unused angel and early stage seed investment tax credit amounts to increase the credit amounts that may be claimed under the refundable jobs tax credit, subject to a 14-day passive review by the Joint Committee on Finance (JFC).

Transferability of Credits. A person who makes an investment in a certified fund and who is eligible to claim an early stage seed investment tax credit may sell or otherwise transfer the credit to another person to offset that person's income, franchise, or insurance premiums tax liability. A certified fund manager is required to notify both WEDC and DOR of the transfer and submit a copy of the transfer documents. The fund manager must pay WEDC a fee of 1% of the amount of the credit sold or transferred. Angel investment tax credits cannot be sold or otherwise transferred under current law.

GOVERNOR

Make the following changes to the angel and early stage seed investment tax credits:

a. *Annual Limit.* Set the annual limit on the amount of angel and early stage seed investment tax credits that may be claimed at $30.0 million. The bill would delete the current law annual limits specific to each credit, including the additional $250,000 provided for investments in nanotechnology businesses under each of the credits.

b. *Expand Transferability.* Permit a person who is certified to claim an angel credit for taxable years beginning after December 31, 2014, to sell or otherwise transfer the credit to another person who is subject to the individual income tax, the corporate income/franchise tax, or the insurance premiums tax. Require the person who transfers the credit to notify WEDC and DOR of the transfer and submit with the notification a copy of the transfer documents.

c. *Fee Increase.* Increase the fee that WEDC may charge a person selling or otherwise transferring an angel investment or early stage seed investment credit from an amount equal to 1% of the credit amount sold or transferred to up to 5% of that amount.

Make the following changes to the current requirements for a person to be certified as a QNBV for purposes of the angel and early stage seed investment credits:

a. *QNBV Waiver.* Require WEDC's policies and procedures to allow the Corporation to waive one or more of the current law requirements that a QNBV must: (1) be headquartered in this state; (2) have at least 51% of the employees employed by the business be employed in this state; (3) have less than 100 employees at the time the business is initially certified; or (4) agree that it will not locate outside Wisconsin during the three years following an investment for which a person may claim the angel investment credit. However, WEDC could not waive these requirements unless WEDC's Board approves standards in the policies and procedures and the waiver complies with the Board's approved standards.

b. *Differentiating Technology.* Modify the requirement that, for a business to be certified as a QNBV, it must have the potential for increasing jobs in Wisconsin, increasing capital investment in the state, or both, if, processing or assembling products are enabled by applying, services that are enabled by applying, or pre-commercialization activity is related to, <u>differentiating</u> technology, rather than <u>proprietary</u> technology.

c. *QNBV Eligibility.* Expand eligibility for a business to be certified as a QNBV such that a businesses could be certified if it has the potential for increasing jobs and/or capital investment in Wisconsin and is: (1) a technology-based physician or health care consulting business [a technical amendment would be required to accomplish this intent]; or (2) a retailer for whom at least 51% of its annual sales originate on the Internet.

d. *Maximum Investment.* Increase the maximum amount of investments that qualify for angel and early stage seed tax credits that a QNBV could receive at the time of certification or recertification, beginning with taxable years starting after December 31, 2014, from $8 million to $12 million.

These provisions would take effect on the bill's general effective date. According to the administration, these provisions would not have a fiscal impact. On April 13, 2015, the administration sent a letter to the co-chairs of JFC requesting a number of modifications to the bill to address drafting errors and to clarify the Governor's intent. The administration has requested that the bill: (a) specify that transferability applies to angel investment credits certified by WEDC beginning after December 31, 2014 and not limit transferability of the early stage investment credit; and (b) specify that WEDC may charge a fee of up to 5%, rather than a fee equal to 5% for transfers of business investment credits.

DISCUSSION POINTS

1. The angel and early stage seed investment programs were created under 2003 Wisconsin Act 255. A number of legislative acts have modified and expanded the early stage business investment programs to their current form. The Attachment provides historical detail for the amount of credits that: (a) WEDC and the former Department of Commerce could issue in each year; (b) have been issued; (c) have been transferred to the jobs tax credit; and (d) were unallocated and have been carried forward from prior years.

Annual Limit

2. The bill would limit the amount of angel and early stage seed credits that could be claimed in a calendar year to no more than $30.0 million. This would reduce the aggregate amount of credits that could be issued by $11.0 million as compared to current law. In addition, state law would no longer earmark for nanotechnology businesses $250,000 for each of the business investment credits.

As shown in the Attachment, calendar year 2012 was the year in which the most credits were issued for the business investment credits. In that year, just over $12.0 million of business investment credits were issued. Because utilization of the credits has not approached the current limits for either credit since the maximum amount of credits was increased to its current level, the reduction in the annual credit limit is not anticipated to affect the amount of credits that could be issued by WEDC.

3. Under current law, DOR, in consultation with WEDC, may carry forward to subsequent taxable years unallocated angel investment credits and early stage seed investment credits. However, it should be noted that WEDC states that it has not carried forward unallocated business investment credits that are specifically allocated for nanotechnology businesses. According to the Corporation, it is unclear whether the additional $250,000 for nanotechnology businesses for each of the credits is permitted to be carried forward to future years and, if so, whether the unallocated balance would have to be in a segregated pool of tax credits.

4. The total amount of unallocated business investment credits, including carryforwards from prior years, was approximately $105.7 million at the end of calendar year 2014. Under the current limits, WEDC is authorized to issue business investment credits of up to $146.2 million in 2015 (not including the seperate allocation for nanotechnology businesses). However, based on historical trends, it is anticipated that the Corporation will issue approximately $13 million of business investment credits in 2015 under current law, representing approximately 8.9% of its total allocation authority in that year. The balance of unallocated credits that are carried forward to future years is expected to continue to grow.

5. The aggregate accumulated balance of unallocated business investment credits represents a potential risk to state finances. While unlikely, if an unexpected increase in QNBV applications and certifications were to enable WEDC to issue all of its unallocated credits carried forward from prior years in 2015, and the Corporation chose to issue all available credits in 2015 that were subsequently claimed and used by taxpayers, it is possible that an unexpected shortfall could occur in the state's general fund. It is unclear what purpose is served by permitting WEDC to carry forward such a large balance of unallocated business investment credits when the actual allocations remain well below the annual limit.

6. In order to address this concern, the Committee could specify that unallocated credits from a previous year cannot be carried forward to, and issued in, a subsequent year. Because the amount of business investment credits to be issued in any calendar year in the 2015-17 biennium is not expected to exceed $30 million, this alternative is not estimated to have a fiscal impact. However, this alternative would ensure that WEDC could not unexpectedly issue in excess of $30 million in angel investment or early stage seed investment credits during any calendar year. WEDC would maintain the authority to reserve business investment credits from the following year if demand exceeds its annual limit under this alternative.

Permit Angel Investment Credit to be Sold or Otherwise Transferred

7. The bill would allow a person eligible for the angel investment credit to sell or otherwise transfer the credit in the same manner that a person could sell or otherwise transfer an early stage seed investment credit under current law. As a result, a person with no tax liability could choose to sell the credit to another person who had a tax liability, presumably for a discounted amount as compared to the face value of the credit. For a credit that is transferred from a person certified for an angel investment credit worth $100,000, the cost to the state would be the full $100,000, whereas the benefit to the person who made the investment would likely be a smaller amount.

8. Based on aggregate statistics compiled by DOR for tax year 2013, a total of $9.1 million angel investment credits were claimed and $3.9 million credits were used to offset individual income taxes in that year. As a result, a total of $5.2 million in credits remained unused and could be carried forward to offset the taxpayer's income tax liability in future years. According to the administration, it is the Governor's intent to only make credits transferrable that are issued by WEDC beginning in 2015. As a result, an estimated $6.1 million in angel investment credits that have been issued by the Corporation and claimed (or will be claimed) by eligible claimants through tax year 2014, but that have not been used, would not be transferrable. Those credits could be used to offset future state tax liability in future years, as permitted under current law.

9. The early stage seed investment credit is transferrable under current law. Based on information from DOR and WEDC, approximately 14% of early stage seed investment credits have been transferred for use by persons other than the claimant. Based on historical data and assuming that expanding transferability to the angel investment credits would result in angel credits being transferred at approximately the same rate as early stage seed credits, it is estimated that approximately $1.1 million in credits would be sold or otherwise transferred, annually.

10. Based on the information described above, it is estimated that allowing angel credits to be sold or otherwise transferred would reduce state tax revenues by approximately $1.4 million in 2015-16 and $1.1 million in 2016-17 and annually thereafter. The higher amount in the first year reflects a full year of credits that could be transferred in tax year 2015 accompanied with revenue reductions from lower estimated payments from persons who would purchase angel investment credits from persons eligible for the credit during the first half of tax year 2016. It is possible that the provision could result in larger reductions of state revenues if persons currently making investments eligible for (but not applying for) the credit choose to, instead, apply for, become certified for, and transfer those credits to receive a financial benefit.

11. The Committee could choose to approve the Governor's proposal and allow both nonrefundable business investment credits to be transferred under the bill, as compared to permitting only the early stage seed investment credit to be transferred. However, if the Committee chose to delete the proposal to allow the angel investment credit to be transferred, the Committee would have an estimated $2.5 million of additional revenues available other purposes during the 2015-17 biennium.

Increase the Fee WEDC may Charge for a Transferred Credit

12. The bill would increase the amount of the fee that WEDC could charge a person for transferring a credit from 1% of the amount of the credit sold or otherwise transferred to up to 5% of that amount (as amended under the administration's technical erratum). As described above, approximately 14% of early stage seed credits issued are transferred. Assuming an annual issuance of approximately $13 million in credits ($8 million of angel credits and $5 million of early stage seed credits), it is estimated that the maximum fee that WEDC could charge under the bill would generate approximately $91,000 in fees paid to the Corporation for approximately $1.8 million in transferred business investment tax credits. Any fee monies paid to WEDC could be used for any costs associated with processing the credit transfer or could be used by the Corporation for other economic development grant or loan programs.

13. On the other hand, allowing WEDC to charge a higher credit amount reduces the value of the transferred credit to the person who made the eligible investment, which could be argued to be counter to the purpose of the credit. If the Committee chose to maintain current law, the provision would not have a state fiscal effect but would reduce the amount of monies available to WEDC for other purposes.

Allow WEDC to Waive QNBV Eligibility Requirements and Penalties

14. WEDC's Board would be required to, under the bill, create policies and procedures that allow the Corporation to waive one or more of the requirements that a QNBV must: (a) be headquartered in the state; (b) have more than half of its payroll in the state; (c) have less than 100 employees at the time of certification; and (d) agree that it will not relocate outside the state within three years. Currently, if a QNBV relocates outside the state, the business is subject to certain clawback provisions, if the relocation occurs within three years of receiving a business investment credit. According to WEDC, the purpose of the waiver would be to allow Wisconsin based startups that maintain production facilities and their headquarters in the state, but expand out-of-state sales

personnel for the business to grow its out-of-state sales presence, to remain eligible as a QNBV for business investment credits regardless of whether the out-of-state expansion would result in 51% of the QNBV's employees or payroll not being in Wisconsin.

15. According to WEDC, four companies have been affected by these provisions. Two companies chose to remain in compliance to receive the credits rather than become subject to the penalties specified in the current law clawback provisions by laying off out-of-state sales staff that had would have otherwise helped grow their businesses. The two others that were subject to the clawback provisions paid penalties to WEDC totaling approximately $100,000.

16. It could be argued that penalizing a QNBV for expanding its employment and payroll outside the state for the purpose of growing its business is contrary to the purpose of the business investment credits. The Governor's proposal would allow WEDC's Board to enact policies and procedures to waive one or more of the criteria that would otherwise trigger the clawback provisions. However, the Governor's proposal would allow WEDC to develop policies that would allow the Corporation to waive the criteria that a business must be headquartered in the state, have less than 100 employees at the time of certification, and agree not to relocate outside the state within three-years. The Committee could, alternatively, specify that a QNBV is not required to pay a penalty to WEDC if the company received an investment that was eligible for the credit and subsequently expanded outside of Wisconsin, as long as it maintained its presence in this state. Under this alternative, a business would not be penalized for expanding its sales force outside the state; however, WEDC would not be allowed to waive the eligibility requirements that a QNBV must be headquartered in the state and must have fewer than 100 employees at the time of certification or waive the clawback requirements for a QNBV that relocates existing employees or investments outside the state within three years of receiving an eligible business investment credit.

Expand QNBV Eligibility to Software Companies

17. The Governor has recommended modifying the current law requirement that, for a business to be certified as a QNBV, it must have the potential for increasing jobs in Wisconsin, increasing capital investment in the state, or both, if it is engaged in, or has committed to engage in, processing or assembling products that are enabled by applying, services that are enabled by applying, or pre-commercialization activity related to, <u>differentiating</u> technology, rather than <u>proprietary</u> technology under current law. According to WEDC, when the current law provision was enacted, the former Department of Commerce had interpreted "proprietary technology" to mean that only companies with patented, patent pending, or exclusively licensed intellectual property could be eligible as a QNBV. According to WEDC, since the program has expanded, a number of software based technology companies in Wisconsin with little or no significant patents or patentable technologies have shown growth potential. WEDC states that, in the software industry, obtaining a patent has not been considered a priority because businesses produce products and services that change before the business can obtain a patent.

18. WEDC does not have information to indicate how expanding the types of businesses that can be certified as a QNBV to include software companies would increase the number of companies that might apply for, and be certified as, QNBVs. It is estimated that this change would result in a minimal reduction in state revenues over the biennium since such companies have not

been pursuing QNBV certification and there would likely be a delay before WEDC began receiving applications and certifying such companies as eligible to receive business development credits. However, it is possible that a number of software companies could apply for certification as a QNBV and attract angel and early stage seed investments, resulting in a greater fiscal impact to the state in future years. The Committee could choose to expand the types of businesses that could apply for certification as a QNBV to include software development companies. Alternatively, if the Committee does not consider software development companies that are not producing patentable technologies or licensed intellectual property as a type of business that should be eligible for business investment credits, the Committee could delete the Governor's recommendation.

Expand QNBV Eligibility to Additional Types of Businesses

19. The Governor recommends expanding the types of businesses that could be certified as QNBVs if the businesses have the potential for increasing jobs and/or capital investment in Wisconsin and the business is either a: (a) technology-based physician or health care consulting business; or (b) retailer for whom at least 51% of its annual sales originate on the Internet. As noted, a technical amendment would be needed to accomplish the administration's intent. According to WEDC, healthcare based software companies and online retail companies have been growth industries across the country, which has been reflected in the types of applications that WEDC has received for QNBV certification over the last three years. WEDC states that these types of software companies have lower risk for investors and show greater growth potential than other types of software technology companies. The Corporation has estimated that between two and four companies would be interested in being certified as QNBVs, and would likely be certified under this proposal, for approximately $4 million in potential investment (potential credit award of $1 million). Based on information provided by WEDC and the assumption that the provision would result in additional investments eligible for business investment credits of approximately $2 million, annually, it is estimated that the proposal would reduce state tax revenues by $200,000 in 2015-16, $700,000 in 2016-17, $600,000 in 2017-18, and $500,000 in 2018-19 and annually thereafter.

20. The Committee could choose to approve the provisions and expand the types of business that could be eligible for certification as QNBVs to technology-based physician companies, health care consulting businesses, and to online retail companies in Wisconsin. However, approval of the Governor's provisions has been reestimated to reduce revenues by $900,000 over the 2015-17 biennium. As noted by WEDC, these types of software companies have lower risk for investors and show greater growth potential than other types of software technology companies. One could argue that a low-risk startup company should be able to secure financing from existing resources in the private sector without requiring the state to subsidize 25% of the investor's risk for those investments. If the Committee chose to delete the recommended expansion of businesses that eligible to be certified as QNBVs, the Committee could use these monies for other purposes.

Increase Aggregate Credit Limit for QNBVs

21. The Governor has recommended increasing the maximum amount of investments that can qualify for angel and early stage seed tax credits that a QNBV could receive at the time of certification or recertification, beginning with taxable years starting after December 31, 2014, from

$8 million to $12 million. As noted, the angel investment credit and early stage seed investment credit are equal to 25% of the investment amount. Therefore, the amount of credits that could be claimed would increase by up to $1 million per eligible QNBV if that business were to receive the maximum amount of eligible investments under the bill.

22. According to WEDC, four businesses have been affected by the current limit that could receive eligible angel and early stage seed investments of up to $12 million. In addition, WEDC states that 34 other companies are nearing the $8 million limit, which may result in additional tax credits of between $1 million and $2 million per year. Based on this information, this provision has been reestimated to reduce state tax revenues by $3.2 million in 2015-16, $2.2 million in 2016-17, and $1.5 million in 2017-18 and annually thereafter. The declining fiscal estimate over the three-year period reflects the one-time effect of the four QNBVs currently limited by the $8 million limit certifying additional eligible investments that could receive the credits. If the Committee chose not to adopt this provision, an estimated $5.4 million in the 2015-17 biennium would be available for the Committee to use for other purposes.

23. As previously noted, several provisions of the budget bill to modify the business investment program have been reestimated to reduce revenues by amounts that were not originally included in the administration's estimates. The following provisions proposed by the Governor have been reestimated to reflect lower state tax revenues under the bill: (a) allowing the angel investment credit to be sold or transferred; (b) allowing certain healthcare based software businesses and online retail businesses to become certified as QNBVs; and (c) increasing the maximum amount of investments that a QNBV can receive that are eligible for business investment credits. As compared to the current estimates under the budget bill, these provisions have been reestimated to reduce state tax revenues under the bill by an additional $4.8 million in 2015-16, $4.0 million in 2016-17, $3.2 million in 2017-18, and $3.1 million in 2018-19 and annually thereafter.

ALTERNATIVES

1. Approve the Governor's recommendation with technical modifications to: (a) specify that the angel investment credit can be transferred or otherwise sold for credits certified by WEDC after December 31, 2014, and that transferability of the early stage seed investment credit would not be affected by this provision; (b) specify that WEDC may charge a fee of up to 5% relating to the transfer of angel and early stage seed investment credits; and (c) clarify that a technology-based physician or health care consulting business could be eligible for the credit. In addition, reestimate the fiscal impact of these provisions under the bill to reduce revenues by $4,800,000 in 2015-16, $4,000,000 in 2016-17, $3,200,000 in 2017-18, and $3,100,000 in 2018-19 and annually thereafter.

ALT 1	**Change to Bill**
GPR-REV (Tax)	- $8,800,000

2. Approve Alternative 1 with one or more of the following modifications:

a. Specify that unallocated angel investment credits and early stage seed investment credits may not be carried forward and issued in subsequent years. In addition, specify that the existing balance of unallocated business investment credits from prior years may not be allocated by WEDC.

b. Delete the Governor's recommendation to allow a person eligible for an angel investment credit to transfer or otherwise sell the credit to another person. Deletion of this provision is estimated to increase revenues, as compared to the reestimated amounts under the bill, by approximately $1,400,000 in 2015-16 and $1,100,000 in 2016-17 and annually thereafter.

ALT 2b	**Change to Bill**
GPR-REV (Tax)	$2,500,000

c. Delete the Governor's recommendation to increase the fee that WEDC may charge a person for selling or transferring a business investment credit from 1% of the credit amount to up to 5% of the amount of the credit.

d. Delete the Governor's recommendation regarding waivers of QNBV eligibility requirements. Instead, specify that a person who was eligible as a QNBV, but subsequently expanded such that 51% or more of its employees or payroll is located outside the state while maintaining its Wisconsin investment and employment levels is not considered to have relocated outside the state and is not subject to the current law clawback provisions.

e. Delete the Governor's recommendation regarding waivers of QNBV eligibility requirements.

f. Delete the Governor's recommendation to expand eligibility as a QNBV to companies that are engaged in, or committed to engage in, innovations in processing or assembling products that are enabled by applying, services that are enabled by applying, undertaking pre-commercialization activity related to, <u>differentiating</u> property, rather than <u>proprietary</u> property.

g. Delete the Governor's recommendation to expand eligibility for a business to be certified as a QNBV if the business has the potential for increasing jobs and/or capital investment in Wisconsin and the business: (1) is a technology-based physician or health care consulting business; or (2) is a retailer for whom at least 51% of its annual sales originate on the Internet. Deletion of this provision is estimated to increase state tax revenues, as compared to the reestimated amounts under the bill, by approximately $200,000 in 2015-16, $700,000 in 2016-17, $600,000 in 2017-18, and $500,000 in 2018-19 and annually thereafter.

ALT 2g	**Change to Bill**
GPR-REV (Tax)	$900,000

h. Delete the Governor's recommendation to increase the maximum amount of investments that could qualify for business investment credits that a QNBV could receive at the time of certification or recertification, beginning with taxable years starting after December 31, 2014, from $8 million to $12 million. It is estimated that deletion of this provision would increase state revenues, as compared to the reestimated amounts under the bill, by $3,200,000 in 2015-16, $2,200,000 in 2016-17, and $1,500,000 in 2017-18 and annually thereafter.

ALT 2h	**Change to Bill**
GPR-REV (Tax)	$5,400,000

3. Delete provisions. Compared to the bill, this alternative would not have a fiscal impact because the administration estimated no revenue reduction from these provisions. Compared to the revised estimates identified above, this alternative would increase revenues by an estimated $4,800,000 in 2015-16, $4,000,000 in 2016-17, $3,200,000 in 2016-17, and $3,100,000 in 2017-18 and annually thereafter.

Prepared by: Sean Moran
Attachment

ATTACHMENT

Early Stage Business Investment Tax Credit Program Utilization

Angel Investment Tax Credit

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Initial Credit Allocation	$3,000,000	$3,000,000	$3,000,000	$5,500,000	$5,500,000	$6,500,000	$20,000,000	$20,000,000	$20,000,000	$20,000,000
Carryforward from Previous Year	0	0	0	949,538	3,356,109	3,009,980	3,124,697	16,359,823	28,151,203	42,126,448
Total Available	$3,000,000	$3,000,000	$3,000,000	$6,449,538	$8,856,109	$9,509,980	$23,124,697	$36,359,823	$48,151,203	$62,126,448
Credits Allocated	$2,989,764	$2,418,179	$2,050,462	$3,093,429	$5,529,217	$4,994,678	$6,764,874	$8,208,620	$6,024,755	$6,810,626
Transferred to the Jobs Tax Credit	0	0	0	0	316,912	1,390,605	0	0	0	0
Available for Carryforward	N/A*	N/A*	$949,538	$3,356,109	$3,009,980	$3,124,697	$16,359,823	$28,151,203	$42,126,448	$55,315,822

Early Stage Seed Investment Tax Credit

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Initial Credit Allocation	$3,500,000	$3,500,000	$3,500,000	$6,000,000	$6,000,000	$8,000,000	$20,500,000	$20,500,000	$20,500,000	$20,500,000
Carryforward from Previous Year	0	0	0	899,797	2,615,335	2,615,335	2,602,835	11,481,099	18,173,601	35,870,798
Total Available	$3,500,000	$3,500,000	$3,500,000	$6,899,797	$8,615,335	$10,615,335	$23,102,835	$31,981,099	$38,673,601	$56,370,798
Credits Allocated	$125,531	$1,423,439	$2,600,203	$4,284,462	$3,225,537	$2,566,817	$4,621,736	$3,807,498	$2,802,803	$5,953,306
Transferred to the Jobs Tax Credit	0	0	0	0	2,774,463	5,445,683	7,000,000	10,000,000	0	0
Available for Carryforward	N/A*	N/A*	$899,797	$2,615,335	$2,615,335	$2,602,835	$11,481,099	$18,173,601	$35,870,798	$50,417,492

*The ending balance was not available to be carried forward to the following year in 2005 and 2006.

Note: The annual initial credit allocations for each of the business investment credits do not include the statutorily provided additional $250,000 per calendar year for each credit allocated specifically for nanotechnology businesses.