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To: The Senate Committee on Financial Institutions and Revenue
From: Sen. Dan Feyen
Re: Senate Bill 729

Hello, Chairman Kooyenga and committee members. Thank you for taking the time today to hear testimony on Senate Bill 729.

A strong startup ecosystem in Wisconsin is integral to our state's economic development and ability to compete with other states in attracting more startup businesses and workers.

WEDC's Qualified New Business Venture Program supports a strong startup ecosystem by incentivizing investment in technology based startup businesses through a tax credit given to eligible angel and venture fund investors who invest in qualified early-stage businesses.

Since the program's inception in 2005, around \$600M in private investment has been raised to support early stage start-up companies. In 2020, total angel and venture fund investments reached an all-time high in Wisconsin with more than \$483M.

In order to continue attracting venture capital and startup businesses, Wisconsin needs to ensure it remains competitive with other states. Back in 2005 when the QNBV program was originally created, certain requirements were mandated in order for a business to qualify. As the program and Wisconsin's startup ecosystem have grown, it has become more apparent that some of these requirements are actually inhibiting economic development. One of these requirements is maintaining at least 51% of a business's employees in Wisconsin which is meant to ensure that our state is not rewarding businesses for out of state expansion.

Recently however, there have been situations where businesses that acquire another facility outside of Wisconsin in order to expand their operations in Wisconsin, have been disqualified from the QNBV Program and therefore, lost their tax credit investment incentive. Punishing businesses that acquire out of state facilities in order to grow their Wisconsin capabilities is not the intent of this 51% requirement.

This bill would make an exception where companies in situations like these would be exempt from the 51% requirement for up to one calendar year. It is important to note that the company's headquarters must remain in Wisconsin and all current Wisconsin employees must remain in Wisconsin. Additionally, the WEDC must determine that the merger or acquisition was made without the intent to cease growing in Wisconsin. Allowing for this exception is an easy way we can continue to help Wisconsin startups grow without inhibiting them because of an out of state of acquisition that is meant to further spur economic development within our borders.

Thank you again for your time and consideration. I look forward to answering any questions you may have.



SHANNON ZIMMERMAN

STATE REPRESENTATIVE • 30th ASSEMBLY DISTRICT

Senate Bill 729

Senate Committee on Financial Institutions and Revenue

January 11, 2022

Thank you Chairman Kooyenga and committee members for hearing testimony on Senate Bill 729 today. This legislation will help startups in Wisconsin remain in Wisconsin. Like all other business ventures, the intention of startups is to grow. This often comes at a rapid pace when in high growth industries. Part of this growth may come through acquisition of other business ventures and folding them into operations of the startup based in Wisconsin.

Startups in Wisconsin often meet the requirements for Qualified New Business Venture (QNBV) credits. These credits were established nearly 20 years ago and provide investors with a credit equal to 25% of the value of the investment made in the qualified company. Wisconsin was one of the first to establish these kind of credits, but many states have followed suits in the recent past.

In short, SB 729 will allow for Wisconsin startups receiving QNBV credits to grow through acquisition while still qualifying for the credits. Current law requires startups in Wisconsin to maintain a minimum of 51% of their workforce in the state to qualify for the above mentioned credits. If a company, for any reason, falls below the 51% threshold, they would not qualify for the credits.

We want to encourage industry growth in Wisconsin so we worked with stakeholders to find a middle road that will allow for expansion through acquisition. Companies would have one calendar year from acquisition to satisfy the 51% Wisconsin employment threshold.

The bill is supported by groups like the Wisconsin Technology Council and the Wisconsin Startup Coalition. We are not aware of any opposition to the proposal.

As we continue to look for ways to support Wisconsin businesses, this is one small change that can make a difference to our homegrown companies.

Thank you again for your time and attention to this proposal and I hope I can count on your support of this measure as we move forward.



January 11, 2022

TO: Sen. Dale Kooyenga, chair, and members of the Senate Financial Institutions and Revenue Committee

FROM: Tom Still, president, Wisconsin Technology Council

RE: SB-729 related to Qualified New Business Venture eligibility

One of the most successful tax-credit programs in Wisconsin since its enactment in 2005 has been the Qualified New Business Venture, or Act 255, investor tax credits. The passage of Senate Bill 729 (companion bill AB-759) would make a vibrant program even better. Here is why:

Passed with bipartisan support led in the Senate by the late Ted Kanavas, the program allows qualified angel and venture investors to receive a 25 percent state tax credit for investments in Qualified New Business Ventures, or QNBVs.

Applications are carefully certified by the Wisconsin Economic Development Corp. and were similarly screened by its predecessor, the Wisconsin Department of Commerce. For companies to be QNBV certified, they must:

- Have a headquarters in this state.
- Have at least 51 percent of the employees employed by the business in this state.
- Have fewer than 100 employees at the time of initial certification.
- Have been in operation in this state for not more than 10 consecutive years at the time of initial certification.
- Have the potential for increasing jobs in this state, increasing capital investment in this state, or both, within targeted sectors.

Wisconsin's QNBV law has been amended over time to reflect changing market conditions. Senate Bill 729 would remove an unofficial "penalty" for companies rooted in Wisconsin and which want or need to add operations elsewhere to expand their reach and competitive edge.

Under this bill, a business remains eligible for QNBV certification if it falls below the 51 percent in-state employment requirement due to a business merger or acquisition, provided *all* of the following apply:

1. The business remains headquartered in Wisconsin.
2. After the merger or acquisition, the business increases the number of workers the business employs in Wisconsin.
3. WEDC determines the merger or acquisition was not for the purpose of relocating the business's operations or employees outside Wisconsin, or for the purpose of ceasing the business's efforts to further grow and expand in Wisconsin.

4. The business satisfies the 51 percent in-state employment requirement within about 12 months after the merger or acquisition occurs.

Wisconsin companies, particularly those that attract angel and venture capital, cannot compete by doing business in Wisconsin alone. They do business in regional, national and even global arenas, and often need a sales force or other hubs on the ground beyond our borders. The bill does not require WEDC to grant every application for a one-year "grace period," but makes it possible to do so.

At the Tech Council, we are aware of instances of young, homegrown companies that would like to acquire similar companies outside of the state. However, they don't want to harm investors who have stood by them – thick and thin – and who would lose tax credits under the current process.

From the program's inception in 2005 through **2020**, the WEDC-DOC tax credits authorized over time and granted by the state Department of Revenue equal **\$171.9 million**, which have generated four times that amount -- **\$687 million** – in private investment in young Wisconsin companies. Since 2005, about 550 companies have been certified through the QNBV program.

The proof of the program's efficacy lies in the growing list of investments and successful companies. Total angel and venture capital investments in Wisconsin **exceeded \$483 million in 2020**. That follows three years (2017, 2018 and 2019) in which total angel and venture capital investments approached **\$1 billion**. Since 2005, the program's first year, angel and venture capital investments have grown from a reported **\$5.4 million to today's running total of \$2.64 billion**. Those young companies have created thousands of jobs while adding value and tax revenue to the Wisconsin economy.

Data for 2021 isn't available yet, but because it was a strong investment year, the assumption is that state tax credits grew somewhat commensurately.

These are private dollars that might otherwise stay on the sidelines and not get involved in the early stage sector if not for the availability of Wisconsin's tax credit law, which is as a model other states have followed over time. We urge you to support this bill.

On a related note, the committee is also scheduled to hear Senate Bill 785 today. Tech Council policy papers have long urged harmonizing transferability within the two sides of the QNBV tax credits, most recently in our January 2021 report. We believe such a change could stimulate more out-of-state investment. In the interest of time, it would best to hear more from SB-785's primary sponsors.

Thank you for your time today!



Testimony of Sam Ridders, Deputy Secretary and COO, Wisconsin Economic Development Corporation
Senate Committee on Financial Institutions and Revenue
January 11, 2022

Good morning, Chairman Kooyenga and Members of the Senate Committee on Financial Institutions and Revenue.

Thank you for taking the time today to discuss two pieces of legislation intended to improve access and opportunities for Wisconsin's start-up business communities and investors. I will provide information on both bills in my testimony today.

Recent years have demonstrated exceptional growth for investments in Wisconsin startups. Using data provided by the Wisconsin Technology Council, in 2020, more than \$485 million were invested in more than 114 companies. While we are still finalizing 2021 figures, preliminary estimates show investors provided more than \$675 million to 100 early-stage Wisconsin companies – a 40% increase in one year. These results are up from \$209 million invested in 2015. In short, investments in Wisconsin entrepreneurs and innovators are strong and growing, a testament, at least part, to the work being done by WEDC and Governor Evers' administration.

These investments are having a significant impact on Wisconsin's economy. In 2020, 446 startup and early-stage companies reported activity of nearly \$565 million in new funding and generated more than \$319 million in revenue for a total of more than \$884 million in new capital generation. These companies supported 2,232 full-time jobs and 1,952 part-time jobs in Wisconsin and paid an estimated \$163 million in annual wages.

Senate Bill 729

I would like to begin by providing some insight into our entrepreneurship and innovation efforts, most notably through the Qualified New Business Venture (QNBV) program. WEDC has several major programs that directly support entrepreneurship and innovation, including the QNBV tax credits, capital catalyst matching grant, seed accelerator and We're All Innovating programs. WEDC's entrepreneurial programs are designed to further advance startup activity by supporting the full path from startup to commercialization.

The QNBV program, a central pillar of our suite of startup support programs, helps startups headquartered in Wisconsin that offer innovative products, processes, or services raise the capital they need to grow by offering tax credits to investors. QNBV certification allows businesses to offer their equity investors tax credits as an incentive for investing in their business. In 2020, the QNBV program supported 242 companies including 42 new certifications.

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QNBV companies are responsible for creating high-paying, high-skilled jobs throughout Wisconsin. By supporting investment in cutting-edge companies, the QNBV Program sets the stage for Wisconsin's future success in a globally competitive environment.

A business may be certified as a QNBV if:

- It is headquartered in Wisconsin.
- At least 51 percent of the employees employed by the business are employed in this state.
- It has the potential for increasing jobs and/or capital investment in Wisconsin.
- It is engaged in innovation or applying differentiating technology in target industries.
- It had less than 100 employees at the time of initial certification.
- It has been in operation in this state for not more than 10 consecutive years at the initial certification.

WEDC works with QNBV businesses to meet their needs and support their ability to remain in good standing while still maintaining high standards of compliance and transparency. WEDC makes every effort to avoid adding unnecessary bureaucratic barriers to company success and can collaborate with companies to cure discrepancies, so those businesses are able to thrive.

WEDC is aware of circumstances in which a QNBV company has fallen out of compliance with the program guidelines due to a merger or acquisition. SB 729 sets clear standards and codifies in statute our ability to work with companies who will benefit the state of Wisconsin to remain qualified even if, for a brief period, they fall out of compliance due to a merger or acquisition of a business outside of the state.

Senate Bill 785

As I mentioned, our QNBV Program provides tax credits to eligible angel and venture fund investors who make cash equity investments in Qualified New Business Ventures. If all eligibility requirements are met, investors receive a Wisconsin income tax credit equal to 25 percent of the investment made in the certified company.

Currently, venture investors without a Wisconsin tax liability may transfer their QNBV credits to someone with a Wisconsin tax liability. The proposed change in SB 785 extends this ability to angel investors.

It should also be noted that the QNBV program is currently disbursed on a first come, first-served basis and has a cap of \$30 million. Conservatively, WEDC estimates the proposed change would result in at least \$4 million of QNBV credit utilization a year. While we have never hit that the program's cap, it is possible this tax credit transfer allowance would bring us closer to it and potentially even hit it.

The QNBV Program has been successful over the years and is an integral part of our efforts to help early- and mid-stage Wisconsin businesses attract the capital they need to grow and compete in the global marketplace.

WEDC hopes the Committee shares in our commitment to take our efforts to foster entrepreneurship and innovation to the next level. As members may recall, Governor Evers last year proposed creating a \$100 million venture capital fund to help retain Wisconsin start-

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ups seeking to expand. Many businesses have identified the lack of access to local capital as a key factor in their decisions to leave our state. Establishing such a fund would send a clear message that Wisconsin supports its innovators and entrepreneurs not only in their start-up phase, but as they mature and prosper.

Thank you for your time today. I am happy to answer any questions from committee members.

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