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To: The Senate Committee on Financial Institutions and Revenue
From: Sen. Dan Feyen
Re: Senate Bill 785

Hello, Chairman Kooyenga and committee members. Thank you for taking the time today to hear testimony on Senate Bill 785.

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. The tax credit is 25% of the value of the investment made in the certified company and it helps alleviate some of the risk associated with these early stage investments.

Currently, this tax credit only incentivizes in-state investors. However, there is a lot of venture capital available outside of Wisconsin and we want to attract more of this money to our state. Attracting out of state investors to invest in Wisconsin companies is a great way to continue to spur economic development within our borders.

This bill would make a change to the QNBV program to allow qualified out of state investors to sell or otherwise transfer their tax credit to an entity or individual with a Wisconsin tax liability. The QNBV Program currently allows up to \$30M in tax credits to be claimed in one calendar year and this bill does not alter that amount nor create a new tax credit program. It would merely allow for the transfer of this tax credit that already exists in state statute. This law change will help attract more out of state capital as it would create an incentive for investors that don't have a Wisconsin tax liability.

WEDC anticipates that usage of the Angel Credit could increase by \$4M or more with this bill which means an anticipated \$16M or more in Wisconsin investment. This is a noticeable increase to in-state investment with minimal cost to the state.

There is one simple amendment to this bill that makes a change to require approval from WEDC before a tax credit transfer is initiated. Currently, the bill requires notification of any tax credit transfer but does not require approval before beginning the process. Other tax credit transfers in Wisconsin have this approval requirement and DOR indicated it would be easier to verify these tax credit transfers if there was an approval requirement.

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

Mike Kuglitsch

STATE REPRESENTATIVE • 84TH ASSEMBLY DISTRICT

DATE: January 11, 2022
RE: **Testimony for Senate Bill 785**
TO: Senate Committee on Financial Institutions and Revenue
FROM: Representative Mike Kuglitsch
SUBJECT: Transferring Angel Investment Tax Credits

Thank you Mr. Chair and Members of the Committee for your consideration of Senate Bill 785, which allows an angel investment tax credit to be sold or transferred.

The Wisconsin Economic Development Corporation's Qualified New Business Venture (QNBV) Program has been incredibly successful in incentivizing investment in Wisconsin startups, yet common-sense changes can make this program even stronger.

SB 785 allows for out of state Angel investors who invest in a Qualified New Business Ventures company to transfer their tax credit to an entity or individual with a Wisconsin tax liability. Out of state Angel Investors are discouraged from investing in Wisconsin startups because the tax credit incentives are currently not transferable.

Startups are the number one creator of new jobs, but Wisconsin's startup ecosystem ranks below peer states in many of the measures for new business formation, venture capital investment, and startup activity. The goal of the QNBV Program is to incent equity investment in technology-based businesses in the state of Wisconsin.

The program provides tax credits to eligible Angel and Venture Fund investors who make cash equity investments in qualified early-stage businesses. If all eligibility requirements are met, investors receive a Wisconsin income tax credit equal to 25 percent of the value of the investment made in the certified company. This credit helps incent startup investment by alleviating some of the risk associated with this type of venture. The

investments encouraged by this program provide the capital necessary for emerging growth companies to develop new products and technologies, move products to market, and provide high-quality jobs in Wisconsin.

Credits are capped at \$30 million per calendar year and the maximum amount any single venture can acquire is \$12 million. Of the \$30 million allocated by Wisconsin, \$20 million has been dispersed through the tax credit, which leaves enough capacity to absorb the estimated increase in credits applied for should SB 785 be approved.

The bill is supported by the Wisconsin Technology Council and the Wisconsin Startup Coalition and by passing this common sense reform, the QNBV program can continue to support innovative Wisconsin companies, create new jobs, and grow the Wisconsin economy.

The amendment makes a technical correction at the request of the Department of Revenue that will require prior approval from WEDC and DOR for transfers, which would eliminate the potential that more than one taxpayer could use the same credit.

I ask for your support of SB 785.



*Lydia Zeller
Board Chair, Wisconsin Startup Coalition
Testimony SB 785
January 11, 2022*

Good morning. My name is Lydia Zeller. I am Board President of the Wisconsin Startup Coalition. And until a few weeks ago I was President & CEO of Kiio, a Madison based digital healthcare startup. I appreciate your time today.

I am here this morning in support of SB 785, whose purpose is to allow out of state angel investors who invest in approved Wisconsin startups to sell or transfer the resulting Wisconsin QNBV tax credits.

Raising capital is critical to starting, growing, and scaling a company. As an entrepreneur and CEO I lived that daily. The QNBV tax program – available to approved Wisconsin startups and ably managed by the WEDC – is an extremely valuable tool in an entrepreneurs' toolkit to facilitate early-stage fundraising. Angel and early-stage venture investors in Wisconsin and other states are well aware of state tax credits to incent investment, and I used this carrot in every early-stage investor pitch I made for Kiio. It is a meaningful credit, and one that investors care about, calculate, and factor into investment decisions.

Unfortunately, under current law, while early-stage venture funds are able to sell their tax credits, angel investors and angel networks are not. This means that out-of-state angels are less likely to invest in Wisconsin companies. I experienced that negative effect at Kiio, where several prominent angels and angel networks either passed on a Kiio investment or invested less. That became critical later, when the lack of national breadth in our investor based made later fundraising more difficult.

I ask that you support SB 785 for several reasons – all based on the fact that increasing the amount of out-of-state angel investment in Wisconsin startups is a good thing for Wisconsin.

1. Supporting startups is incredibly important in terms of creating net new jobs and economic opportunities in Wisconsin. From 2012 through 2021 Kiio provided high-paying jobs in the growing field of digital healthcare. In 2020-2021 alone, we grew from 13 to 25. These salaries not only pay Wisconsin income and property taxes but are spent in our communities supporting other Wisconsin businesses.
2. Wisconsin's startup ecosystem is developing but we lag not only behind the coasts but also behind our Midwestern peers in venture activity. For example, Minnesota startups benefit from nearly six times more venture activity annually than our Wisconsin startups.

3. SB 785 will make Wisconsin more competitive with states such as Indiana which already allow out-of-state angel investors to sell or transfer their tax credits. It will also put angel investors on the same footing as early venture funds.
4. Several of Wisconsin's angel investment groups have members outside of Wisconsin. This bill will provide an incentive for these angels to invest in Wisconsin companies.
5. This bill will not only result in additional early-stage angel investment in Wisconsin companies, but will also set those companies up for greater success as they scale. It is a well-known fact that post-seed funding rounds – Series A, B, C and D – are significantly more challenging to raise for Wisconsin companies than for our peers in other states. This is partly because the majority of growth venture capital firms are located on the coasts. And securing their investment is largely dependent on the strength of the networks and connections of the earlier investors. It is, unfortunately, a significant disadvantage to have your seed investment limited to Wisconsin investors.

I would like to share Kiio's experience as an example of how this can play out. Kiio raised funding from a variety of wonderful angel and early venture funds in Wisconsin. With their help we developed a proven app-based solution to help people with musculoskeletal pain. You may have seen some of our results in the press – 62% lower medical costs, 89% fewer opioid prescriptions, 91% fewer urgent care visits, 58% fewer spinal surgeries. Wisconsin health plan clients included Quartz, WEA Trust, Children's Community Health Plan, WPS Health Insurance and several local employers. National clients included UnitedHealthcare, Tufts Health Plan and Walgreens. Despite this success we had significant difficulty securing national venture investment – money we needed to successfully scale the business in Wisconsin. This was in large part due to the lack of national breadth and strength in our investor base. After a series of challenging COVID-related setbacks, we were forced to sell the product in late 2021 to a New York based telehealth firm at a far lower valuation than we would have secured had we been better capitalized. As a result not only did our investors ~~did~~ not see the return they should have, but Kiio ceased to exist and is no longer creating jobs in Wisconsin.

I have spent the last nine years in the Wisconsin entrepreneurial ecosystem. This is a vibrant, skilled group of people passionate about creating companies, jobs and value in our state. I respectfully ask for your support in helping them raise funds and broaden the geography of their investor base by supporting SB 785.