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To: The Senate Committee on Universities and Revenue
From: Sen. Dan Feyen
Re: Assembly Bill 933

Hello members of the committee, thank you for holding this hearing today.

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, the angel tax credit only incentivizes in-state investors. However, there is a lot of angel venture capital available outside of Wisconsin. We want to attract more of this money to our state. Attracting more 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 angel investors to sell or otherwise transfer their tax credit to an entity or individual with a Wisconsin tax liability. It is important to note that this type of transfer is already allowed for venture investors. This law change will help attract more out of state capital as it will create an incentive for angel investors that don't have a Wisconsin tax liability.

The bill also stipulates that a credit can only be sold or transferred once in a 12 month period and that WEDC may charge a 5% fee on each sale or transfer.

WEDC anticipates that usage of the angel credit could increase by 40% or more with this bill. This is a noticeable increase to in-state investment with minimal cost to the state.

The bill also requires notification of WEDC and the Department of Revenue before a tax credit transfer is initiated.

Thank you again for your time and consideration.



ROBERT WITTKE

STATE REPRESENTATIVE • 62nd ASSEMBLY DISTRICT

Senate Committee on Universities and Revenue

March 6, 2024

Chair Hutton and Committee Members:

Thank you for holding a public hearing on Assembly Bill 933 (AB 933) which would allow for the transfer of Angel investment tax credit.

Technological development is here to stay, and Wisconsin needs good policy to entice investment in Qualified New Business Ventures (QNBV).

Raising capital is critical to starting and growing a business and the Wisconsin Economic Development Corporation's (WEDC) QNBV program is a valuable tool for entrepreneurs in early-stage fundraising. Wisconsin's startup ecosystem falls short compared to its peer states and most certainly when compared to east and west coast venture companies. Wisconsin, however, is a prime location for venture companies with our world class education system, a well-funded pension system, research institutions and large corporations.

AB 933 would allow angel investors and angel networks to sell their tax credits like we allow early-stage venture funds. This means out-of-state angels could invest more in Wisconsin companies, and help support startups. Common sense reforms like this will support economic opportunities in Wisconsin – opportunities businesses need.

Thank you for holding this public hearing on AB 933.



Peter Welch
Executive Director, Wisconsin Startup Coalition
Testimony SB 882/AB 933
March 6, 2024

Chairman Hutton and Members of the Committee on Universities and Revenue,

Thank you for taking the time to hear testimony on SB 882/AB 933. I am Peter Welch, the co-founder and Executive Director of the Wisconsin Startup Coalition. WSC is a non-profit, non-partisan organization created in 2020 to advocate for the Wisconsin early stage startup ecosystem. We have over 150 members from across the state, mostly startup founders, but also investors, accelerators, and other stakeholders.

Startups are the number one creator of new jobs. If we want to support a vibrant economy in Wisconsin, we need to support startups throughout their growth, but especially right as they are getting going.

This bill is a common sense improvement to an already successful program. The Qualified New Business Venture program with its 25% tax credit for qualified investors has become a key part of deals cut between Wisconsin startups and investors. It incentivized investors to support Wisconsin companies and those companies to stay headquarters and hiring people in Wisconsin.

Unfortunately, the credit is unavailable if you are an out of state angel investor, disincentivizing investment from across the country into Wisconsin companies. Our members shared numerous stories of struggling to find out of state investors, or worse, of interested investors who walked away from a deal once they learned the tax credit wouldn't apply to them. These are missed opportunities, and increase the risk that a startup may relocate outside of Wisconsin to find early state funding.

AB 933 is likely to increase out of state investment in Wisconsin startups. Looking at previous years of credit use, WEDC's fiscal note from 2022 estimated that they could see a \$4m increase use of the credit, meaning \$16m worth of investment into Wisconsin companies. This bill doesn't impact the \$30m cap on the program (which we've never hit), and the credit due to the out of state investor can only be sold or transferred to someone with Wisconsin tax liability.

I want to emphasize WEDC's great collaboration on this issue, as they share our goal of not leaving any dollars on the table for our most innovative companies.

This bill will help more startups get more funding and I encourage your support. Happy to take any questions.

Thank you.

Peter Welch

Executive Director, Wisconsin Startup Coalition

Managing Partner, The Welch Group

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Please Support Changes to the Qualified New Business Venture Program

The QNBV Program incentivizes equity investment in technology-based businesses in the state of Wisconsin with a 25% tax credit to eligible Angel and Venture Fund investors who make cash equity investments in qualified early-stage businesses. 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.

AB 933/SB 882 & AB 932/SB 883 make updates to the QNBV program to encourage investments in Wisconsin early stage businesses and open the door for more participation in the program.

AB 933/SB 882 & AB 932/SB 883: CHANGES TO QNBV

AB 933/SB 882: transferring the angel investment tax credit

This bill allows the angel investment tax credit to be sold or transferred to another person who is subject to Wisconsin individual income tax. The person must notify the Wisconsin Economic Development Corporation (WEDC) and the Department of Revenue (DOR) of the transfer. The person can only sell or transfer the credit once per year, and WEDC can charge a fee of up to 5 percent of the credit amount. WEDC testified that this Angel Tax Credit use could increase by **\$4M** or more which means an anticipated **\$16M** or more in Wisconsin investment.

Increases Economic Opportunities in WI

AB 932/SB 883: modifying the certification criteria to be a qualified new business venture

The bill aims to modify the criteria for a business to be certified as a qualified new business venture by the WEDC.

Under current law, businesses seeking certification must meet one of two criteria:

1. Engage in, or commit to engage in, innovation in specific industries such as manufacturing, biotechnology, nanotechnology, communications, agriculture, or clean energy creation or storage technology; or be involved in processing or assembling products, including medical devices, pharmaceuticals, computer software and hardware, semiconductors, and other innovative technology products; or provide services enabled by applying differentiating technology.
2. Undertake pre-commercialization activity related to differentiating technology, including conducting research, developing a new product or business process, or developing a service principally reliant on applying differentiating technology.

AB 932/SB 883 simplifies the criterium above to: the business must demonstrate that it has the potential for increasing jobs or capital investment in Wisconsin and is undertaking pre-commercialization activity related to differentiating technology.

Encourages Investment in Startups

Increases Business Participation in the QNBV Program

Makes WI more Competitive For Early Stage Investments

