



January 19, 2022

TO: Rep. Robert Wittke and members of the Assembly Committee on Jobs and the Economy

FROM: Tom Still, president, Wisconsin Technology Council

RE: AB-759 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 Assembly Bill 759 (companion bill Senate Bill 729) would make a vibrant program even better. Here is why:

Passed with bipartisan support led in the Legislature by the late Ted Kanavas and in the Commerce Department by Cory Nettles, 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. Assembly Bill 759 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. It will also make it less likely that other states will be tempted to "poach" a company born and raised in Wisconsin.

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 is still being collected, but we already know it was another strong, and 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 Assembly Bill 804 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 AB-804’s primary sponsors. We have also registered in support of that bill.

Thank you for your time today! I welcome any questions.

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