



ROBERT WITTKE

STATE REPRESENTATIVE • 62nd ASSEMBLY DISTRICT

Assembly Committee on State Affairs
January 24, 2024

Chair Swearingen and Committee Members:

Thank you for holding a public hearing on Assembly Bill 932 (AB 932) which would modify the criteria currently used to be a qualified new business venture (QNBV).

The goal of the QNBV Programs in Wisconsin is to incentive equity investment in technology-based businesses. 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 Wisconsin Economic Development Corporation's Qualified New Business Venture Program has been incredibly successful, yet common sense changes can make this program even stronger.

Currently, out of state Angel Investors are discouraged from investing in Wisconsin startups because the tax credit incentives are not transferable. AB 932 would allow out of state Angel investors who invest in a QNBV company to transfer their tax credit to an entity or individual with a Wisconsin tax liability.

The passage of AB 932 would afford the QNBV program to continue to support innovative Wisconsin companies, create new jobs, and grow the Wisconsin economy.

When AB 932 was out for co-sponsorship, stakeholders and the WEDC met to discuss concerns that had not come to us during the weeks and months we crafted this proposal. There will be others who will testify to the concerns and possible changes we would consider. Given anticipated opposition to AB 932 by the WEDC, we appreciate the opportunity to have concerns and suggestions heard in this public hearing.

The goal for AB 932 is to be helpful to our startups, their investors, and the WEDC who administers the QNBV program.

Thank you for holding this hearing. I look forward to further discussion of AB 932.



DAN FEYEN

STATE SENATOR

18th Senate District
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To: The Assembly Committee on State Affairs
From: Sen. Dan Feyen
Re: Assembly Bill 932

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

Wisconsin needs to continue to foster startups to keep our economy moving forward. Startups are the number one creator of new jobs, but more can and should be done to help Wisconsin catch up and surpass our neighboring states.

WEDC's Qualified New Business Venture (QNBV) Program has been a highly successful tool in our economic development toolkit. QNBV has helped to incentivize investment in Wisconsin startups and get new innovative business ideas off the ground. Since the program's inception in 2005, more than \$600M in private investment has been raised to support early stage start-up companies.

As good as this program is, we can always do better. In order to qualify for the tax credit under current law, a business must be engaged or committed to engaging in an activity from a specified list of industries or be undertaking pre-commercialization activity related to research and development of a new technology.

AB 932 simply eliminates the first option to ensure that we are not limiting the tax credit to specific industries. We should not be picking and choosing where innovation comes from. This bill allows a business to be certified as a qualified new business venture if they show the potential for increasing jobs or capital investments and are in the process of research or the development of a new technology.

By passing this bill, we can keep the QNBV program nimble and allow the flexibility to support more Wisconsin startups and spur the economy.

Thank you for taking the time to hold a public hearing on this bill.



MEMORANDUM

TO: Representative Rob Swearingen, Chairman
Honorable Members, Assembly Committee on State Affairs

FROM: Sam Ridders, Deputy Secretary

DATE: January 25, 2024

SUBJECT: Opposition to Assembly Bill 932, relating to modifications to the Qualified New Business Venture Program

The Wisconsin Economic Development Corporation (WEDC) opposes Assembly Bill 932, which makes a number of modifications to the Qualified New Business Venture program. Under the QNBV program, equity investments in approved companies are eligible for a 25 percent Wisconsin tax credit. In 2022, WEDC approved 45 new companies and there were 276 active companies in the QNBV program.

WEDC believes that if adopted, AB 932 will reduce access to the QNBV program by limiting company eligibility.

The proposed statutory change would only allow companies engaging in pre-commercialization activity related to differentiating technology to qualify.

This change would prevent companies engaging in innovation in a broad set of industries and startups with initial revenue from accessing the program.

Further, the change may prevent companies initially approved under the pre-commercialization criteria from continuing in the program once they begin to transition from research and development into product launch and company growth.

WEDC understands that limiting eligibility may not be the intent of the proposed change.

WEDC and stakeholders have not identified consistent issues with the existing well-established and understood eligibility criteria, and we therefore respectfully request the Committee to maintain current law.

LOOK FORWARD ➤

QUALIFIED NEW BUSINESS VENTURE

WEDC received annual reports from **269 companies**; **157 companies** reported receiving equity investments and loans totaling **\$567.0 million**.

2022 BUSINESS IMPACT

TOTAL NEW FUNDING SECURED BY PARTICIPATING COMPANIES

\$630.8M

Includes qualifying investments, other private investments, debt and grant funding

TOTAL CREDITS ISSUED

\$12.6M

Total tax credits provided in 2022 for investments in certified businesses

NEW QNBV CERTIFICATIONS

45

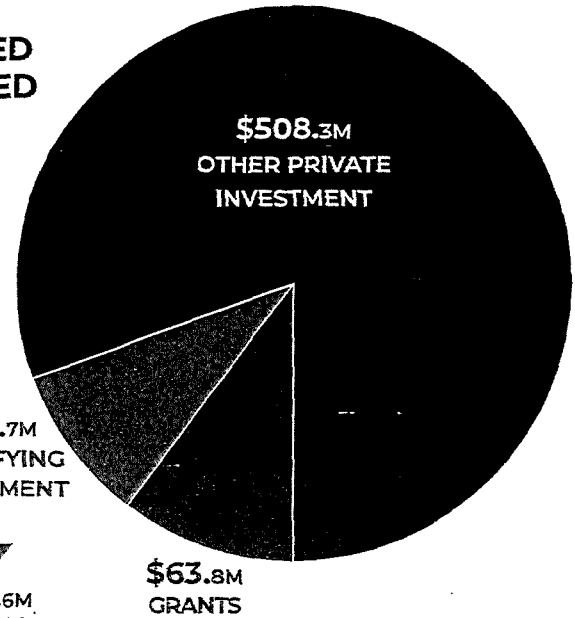
2022 ANNUAL RESULTS

Angel investments.....	\$31,367,052
Early-stage investments.....	\$27,344,389
Total credits.....	\$12,597,341
Other financing.....	\$508,305,364
Grants.....	\$63,764,703
TOTAL.....	\$630,781,508

FUNDING RECEIVED BY QNBV-CERTIFIED COMPANIES

Under program rules, tax credits are issued for 25% of the qualifying investment amount, up to a \$3 million credit cap per company per year. In 2022, two companies received investment that exceeded this cap, resulting in aggregate total qualifying investment that exceeds 4x the amount of tax credits issued.

\$58.7M
QUALIFYING INVESTMENT
↓
\$12.6M
QNBV CREDITS



AVERAGE ANNUAL SALARY FOR QNBV COMPANIES

\$81,400

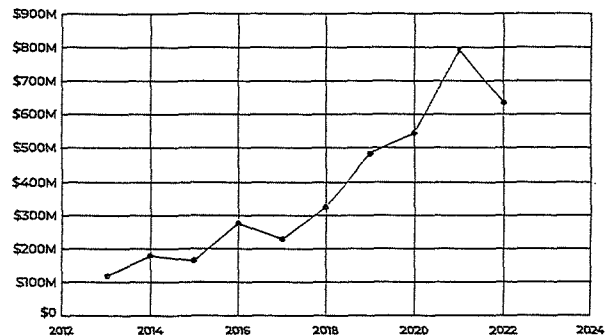
WISCONSIN MEDIAN HOURLY WAGE (annualized basis)

\$47,350

Source: Bureau of Labor Statistics Occupational Employment and Wage Statistics

Over the last 10 years, QNBV-certified companies have become increasingly successful at raising outside capital. Total funding secured by QNBV companies in 2022 was the second-highest on record, exceeding \$600 million.

TOTAL INVESTMENT



Certified companies.....	276
Net new Wisconsin jobs.....	2,101
Wisconsin full-time jobs.....	2,302
Wisconsin part-time jobs.....	1,745
Total jobs (includes outside Wisconsin).....	5,313
Full-time average salary.....	\$81,400

Source: Reporting from QNBV-certified companies



Peter Welch
Executive Director, Wisconsin Startup Coalition
Testimony AB 932 and AB 933
January 24, 2024

Chairman Swearingen and Members of the Committee on State Affairs,

Thank you for taking the time to hear testimony on AB 932 and 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.

These bills represent common sense improvements 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 relocated 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.

AB 932 addresses the criteria a company needs to meet to qualify for the QNBV program. Currently, a qualifying company must be younger than 10 years, smaller than 100 employees, and meet limitation of the size of the investment. They must prove to WEDC that they have the potential to increase jobs or investment in Wisconsin. They must not be primarily engaged in banking, lobbying, accounting, etc., but offer a differentiating or innovative product, service, or technology. WSC supports these reasonable qualifications that target high growth, early stage, venture seeking companies.

Where we have heard concern from our members is the requirement that a company fit into one discrete industry category from a list in the statutes. I've included a list in my testimony (Ex. A). It is exhaustive. WEDC staff does a very good job working with applicants to make sure they fit into one of these categories, and they almost always find a way to qualify a company that meets all the other criteria.

Yet, innovation has a way of finding the gaps in any system. We know that innovation can and does happen in every corner of our economy. We have heard from our members that their companies, or the companies they seek to invest in, don't easily fit into one of these categories.

Asking our members widely, and through numerous conversation with WEDC, I believe this problem to be rare, and, again, the agency does their best to fit companies into a category. But I ask, then, a simple question about this list: If it doesn't provide a meaningful guardrail for qualifying a company, then is it an unnecessary hoop to jump through for a startup?

I want to emphasize WEDC's willingness to work on this issue together, and to get more founders connected to their staff as earlier as possible. However, I think we can make the case that removing this list, while retaining all the other criteria, would prevent a founder from disqualifying themselves and never applying for their program. Or worse, leaving Wisconsin in search of a state with more startup-friendly laws and programs.

Both of these bills 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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Exhibit A:

Industry Specific Categories for QNBV Qualification

- Innovating in:
 - Manufacturing
 - Biotechnology
 - Nanotechnology
 - Communications
 - Agriculture
 - Clean Energy Creation
 - Storage Technology.
- Processing or assembling products, including:
 - Medical Devices
 - Pharmaceuticals
 - Computer Software
 - Computer Hardware
 - Semiconductors
 - Any other Innovative Technology Products
 - Other products that are produced using manufacturing methods that are enabled by applying differentiating technology
- Services that are enabled by applying differentiating technology



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.

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.

**Increases
Economic
Opportunities
in WI**

**Encourages
Investment in
Startups**

**Increases
Business
Participation
in the QNBV
Program**

**Makes WI
more
Competitive
For Early
Stage
Investments**



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