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Wisconsin Department of Commerce

Early-Stage Investor Tax Credits

The **Qualified New Business Venture** program, operated by the Wisconsin Department of Commerce (Commerce), provides tax credits to eligible investors who make early-stage investments in certified businesses. Investors may receive a 25% Wisconsin income tax credit that reduces investment risk. Here's how the program works for private investors.

Which Investors Are Eligible?

The tax credits are available for ***angel investors*** and members of ***angel networks*** who invest in certified Qualified New Business Ventures (QNBVs). "Angel investors" are defined as individuals, a family trust, or a pass-through entity organized solely for investment purposes. An "angel network" is a group of angels organized for investing in a single business. For purposes of this program, eligible investors:

- Meet the Securities Exchange Commission (SEC) definition of accredited investor or the State of Wisconsin definition of sophisticated investor. (See attached form for requirements.)
- May not have made any cash equity investment prior to certification of the QNBV. **Investors who have invested (cash equity) in the company before QNBV certification are not eligible for tax credits if they reinvest.**
- May not already have 20% or more ownership, or be closely related to such a person.
- Must have, or expect to have, a Wisconsin income tax liability to take advantage of the tax credit.

What Companies May Be QNBVs?

Early-stage businesses conducting R&D activities leading to proprietary product development with good commercial potential may be designated QNBVs. To receive certification, companies must also primarily operate in Wisconsin; be ten-years-old or less; have fewer than 100 full-time-equivalent employees; and have raised less than $10 million private capital. (For a listing of QNBV criteria, go to: http://commerce.wi.gov/Act255). ***Commerce must QNBV certify a company prior to the investment for an investor to claim tax credits.*** QNBV designation lasts one year from certification date, and companies may re-apply for QNBV status.

What are Tax-Credit Program Limits?

Aggregate: Wisconsin legislation authorized $30 million in angel tax credits spread over a minimum of 10 years starting in 2005. This translates into tax credits for $120 million in overall angel capital investment. A limit of $3 million in angel tax credits is allowed per year, representing $12 million in annual angel investment. If the $3 million annual tax-credit ceiling is reached, additional qualified investments may cascade forward and be recognized in the next calendar year. (The same legislation authorized $35 million in tax credits ($140 million invested) for certified early-stage venture funds making investments in QNBVs.)

Per QNBV: Businesses can receive up to $4 million in tax credit-eligible cash equity investment, of which angel investors can provide up to $1 million. (That is, venture funds and angels may co-invest in a QNBV, but no more than $1 million invested by an angel network qualifies for tax credit). A QNBV is not restricted from acquiring more capital, but dollars raised over these limits are not eligible for tax credits.

Per Angel: For each individual investing in a specific QNBV, $500,000 is the maximum amount eligible for tax credit. Angels may receive tax credits for investment in multiple QNBVs.

Filing: Investors receive Wisconsin income tax credits totaling 25% of their eligible investment. Typically, two 12.5% tax credits are claimed over two years. A 15-year carry-forward provision applies if the investor is initially unable to use the tax credits.

What Are the Steps for an Investor?

1. Before investing, make sure the company has QNBV certification. Tax credits are not available if the business is certified after investment. Current QNBVs are listed at: http://commerce.wi.gov/Act255/. This web site also explains how companies obtain QNBV designation.
2. Complete the Commerce "**Accredited (Sophisticated) Investor Status Form**" An investor must fill out this form for each QNBV investment made. This form should be submitted by the QNBV with the tax credit request.
3. To claim the tax credit after investment, the QNBV and investor jointly submit the Commerce "**Early Stage Investment Program Tax Credit Investor Request Form**." This form documents the eligible investment amount and is signed by the QNBV Treasurer. Investor Agreement (if it exists) and proof of investment (copy of check and evidence of deposit) must accompany this form.
4. When Commerce receives the completed application (above) from the QNBV, the tax credit is locked in.
5. Commerce sends the investor a confirmation letter indicating the total investment tax credit, the two years the credit applies, and the tax credit per year.
6. Commerce will issue a year end tax credit verification form. To claim the tax credit on a Wisconsin income tax filing, an investor attaches copies of: a) the QNBV certification form, obtained from the QNBV; b) the tax credit verification form.

Where Do Investors Obtain Forms?

Investors obtain all necessary forms from the QNBV.

For More Info on QNBV Certification?

Contact ***Cheryl Gain*** (ph: 608-261-7721 or cgain@commerce.state.wi.us) or go to the Commerce web site: http://commerce.wi.gov/Act255/ .

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