

Instructions for 2014 Schedule VC

Angel Investment Credit and Early Stage Seed Investment Credit

General Instructions

Purpose of Schedule VC

Use Schedule VC to claim a credit for investing in qualified new business ventures. Two credits are available: (1) an angel investment credit for individuals and networks of individuals who directly invest in qualified new business ventures, and (2) an early stage seed investment credit for payments made to certified fund managers to invest in qualified new business ventures.

The Wisconsin Economic Development Corporation (WEDC) administers the qualified new business venture program. To qualify for an investment tax credit, the investor must first apply to the WEDC and receive a tax credit verification form showing the total tax credit, the years for which the credit applies, and the amount of tax credit. For more information about the program, visit the WEDC web site at inwisconsin.com, or call 1-855-469-4249.

Note: An investment partnership or joint venture must file a Wisconsin partnership return, Form 3, in order to compute and pass through the credit to its partners or members.

What Is a Qualified New Business Venture

To be certified as a qualified new business venture, a company must meet certain requirements, including the following:

- Have its headquarters in Wisconsin.
- Have less than 100 employees, at least 51% of whom are employed in Wisconsin.
- Have the potential for increasing jobs in this state, increasing capital investment in this state, or both, and any of the following apply: (1) It is engaged in, or has committed to engage in, innovation in manufacturing, biotechnology, nanotechnology, communications, agriculture, or clean energy creation or storage technology; processing or assembling products, including medical devices, pharmaceuticals, computer software, computer hardware, semiconductors, any other innovative technology products, or other products that are produced using manufacturing methods that are enabled by applying proprietary technology; or services that are enabled by applying proprietary technology; or (2) it is undertaking pre-commercialization activity related to proprietary technology that includes conducting research, developing a new product or business process, or developing a service that is principally reliant on applying proprietary technology.
- Not engage in real estate development, insurance, banking, lending, lobbying, political consulting, professional services provided by attorneys, accountants, business consult-

ants, physicians, or health care consultants, wholesale or retail trade, leisure, hospitality, transportation, or construction, except construction of power production plants that derive energy from a renewable resource, as defined in s.196.378(1)(h), Wis. Stats.

- Have been in operation in Wisconsin for not more than 10 consecutive years.
- Have not received more than \$8 million in investments that qualify for early stage seed investment tax credits.
- Have not received aggregate private equity investment in cash of more than \$10 million prior to being certified.

For additional requirements, see the WEDC web site. Qualified new business status lasts for one year from the certification date. A business may reapply to the WEDC each year for certification for that year.

Credit Reduces Basis of Investment

The credits that you compute on Schedule VC reduce the basis of your investment. This is true even if you cannot use the full amount of credit computed due to insufficient income to offset the credit.

Carryover of Unused Credits

The angel investment credit and early stage seed investment credit are nonrefundable. Any unused credits may be carried forward for 15 years. If there is a reorganization of a corporation claiming an early stage seed investment credit, the limitations provided by Internal Revenue Code section 383 may apply to the carryover of any unused credit.

Specific Instructions

Part I – Angel Investment Credit

The angel investment credit is available to individuals who are “angel investors” or members of an “angel investment network.” An “angel investor” is an “accredited investor” who makes a “bona fide angel investment.” An “accredited investor,” as defined by the WEDC, is an individual who meets certain requirements, including the following:

- (a) Invests his or her own monies in a qualified new business venture.
- (b) Does not own, control, or hold power to vote 20% or more of the outstanding securities of the qualified new business venture.
- (c) Is not a spouse, parent, grandparent, sibling, child, stepchild, or grandchild of an individual who owns, controls, or holds power to vote 20% or more of the

outstanding securities of the qualified new business venture.

(d) Meets any of the following requirements at the time that the original investment is made:

- Has a net worth, or a joint net worth together with his or her spouse, in excess of \$1 million.
- Had an income in excess of \$200,000 in each of the prior 2 years or a joint income with his or her spouse in excess of \$300,000 in each of those years and reasonably expects to reach the same income level in the current year.
- Is a director, executive officer, or general partner of the issuer of the securities being offered or sold, or a director, executive officer, or general partner of a general partner of that issuer.
- Has knowledge and experience in financial and business matters and he or she is capable of evaluating the merits and risks of the prospective investment, or the issuer reasonably believes immediately prior to making any sale that the purchaser comes within this description.

An “angel investment network” is a group of angel investors organized for the sole purpose of making a bona fide angel investment in a single qualified new business venture. It includes a partnership or LLC (but not a tax-option (S) corporation) that is a nonoperating entity as determined by the WEDC, an individual, or a fiduciary.

A “bona fide angel investment” means an investment made by an accredited investor or an angel investment network in a qualified new business venture. An investment is the investment of cash in exchange for common stock, partnership or membership interest, preferred stock, or an equivalent ownership interest in the qualified new business venture acceptable to the WEDC.

Effective May 25, 2010, a claimant that invests in a business that was located outside Wisconsin qualifies for the angel investment credit if the investment was made no more than 60 days before the business relocated to Wisconsin and the business was certified as a qualified new business venture no later than 180 days after relocating to Wisconsin.

Line 1. Fill in the information requested regarding your investments in qualified new business ventures that the WEDC has verified as first eligible for a tax credit for 2014.

Line 3. Fill in the angel investment credit passed through to you from an angel investment network that the WEDC has verified as first eligible for a tax credit for 2014.

Line 4. Add lines 2 and 3d. This is the total 2014 angel investment credit. Reduce the basis in the investment by this amount.

Special instructions apply to partnerships, LLCs treated as partnerships, and fiduciaries.

- **Partnerships and LLCs treated as partnerships:** Prorate the angel investment credit on line 4 among the

partners or members based on their ownership interests or as specially allocated in their governing or organic documents. Show only the credit for each partner or member on Schedule 3K-1.

- **Fiduciaries:** Prorate the angel investment credit that otherwise would be entered on line 4 between the fiduciary itself and its beneficiaries based on their ownership interests or as specially allocated in their governing or organic documents. Show only the fiduciary’s portion of the credit on line 4b. Show the beneficiaries’ portion of the credit on line 4a and show the credit for each beneficiary on Schedule 2K-1.

Line 5. Prepare a schedule detailing your computation of the amount reported on line 5 and submit it with Schedule VC.

Line 6. Add lines 4 and 5 (lines 4b and 5 if fiduciary). This is the available angel investment credit.

Required Attachments to Schedule VC

To claim the angel investment credit, you must file the following with Schedule VC:

- For claimants not receiving the credit passed through from a partnership, tax-option(S) corporation, limited liability company, estate, or trust:
 - Schedule VC
 - A copy of the qualified new business venture certification form provided by the WEDC.
 - The tax credit verification form issued by the WEDC.
- For claimants receiving the credit passed through from a partnership, tax-option (S) corporation, limited liability company, estate, or trust:
 - A copy of your Schedule 5K-1, 3K-1, or 2K-1.
 - Schedule VC

Recovery of Angel Investment Credit

If you hold an investment on which a credit is based for less than three years, you must repay to the Department of Revenue the amount of the credit that you received for that investment unless the investment becomes worthless, as determined by the WEDC, during the 3-year period, or you kept the investment for no less than 12 months and a bona fide liquidity event, as determined by the WEDC, occurs during the 3-year period.

Part II – Early Stage Seed Investment Credit

The early stage seed investment credit is based on a claimant’s investment paid to a certified fund manager that the fund manager invests in a qualified new business venture.

An investment fund manager must apply to the WEDC for certification. Only fund managers who meet certain requirements and commit to investing in qualified new business ventures may receive certification.

The initial investment by a certified fund manager into a qualified new business venture must occur after the date the fund manager is certified. The funds invested in the business must be from cash invested in the fund after the fund manager is certified. If investments have been made in a business by the certified fund manager prior to the certification of the business, no subsequent investment in the qualified new business venture after December 31, 2011, by the certified fund manager will qualify for the credit.

Line 7. Fill in the information requested regarding your investments paid to a certified fund manager that the WEDC has verified as eligible for a tax credit in 2014.

Line 9. Fill in the amount of early stage seed investment credit passed through from other entities.

If you are a partner, shareholder, or member of a pass-through entity that purchased early stage seed investment credits in the current taxable year, enter your share of the credits allocated to you by the pass-through entity.

Line 10. Fill in the amount of credit transferred from other taxpayers in 2014. This is the amount from Part III, page 3.

Line 11. Add lines 8, 9d, and 10. This is the total 2014 early stage seed investment credit. Reduce the basis in the investment by this amount.

Special instructions apply to tax-option (S) corporations, partnerships, LLCs treated as partnerships, and fiduciaries.

- **Tax-option (S) corporations, partnerships, and LLCs treated as partnerships:** Prorate the early stage seed investment credit on line 11 among the shareholders, partners, or members based on their ownership interests or as specially allocated in their governing or organic documents. Show only the credit for each shareholder on Schedule 5K-1 and for each partner or member on Schedule 3K-1.
- **Fiduciaries:** Prorate the early stage seed investment credit that otherwise would be entered on line 11 between the fiduciary itself and its beneficiaries based on their ownership interests or as specially allocated in their governing or organic documents. Show only the fiduciary's portion of the credit on line 11b. Show the beneficiaries' portion of the credit on line 11a and show the credit for each beneficiary on Schedule 2K-1.

Line 12. Prepare a schedule detailing your computation of the amount reported on line 12 and submit it with Schedule VC. If you are a partner, shareholder, or member of a pass-through entity that purchased early stage seed investment credits in a prior taxable year and those credits were not fully

used to offset your tax liability, enter the amount of eligible remaining carryover.

Line 13. Add lines 11 and 12 (lines 11b and 12 if fiduciary). This is the available early stage seed investment credit.

Line 14. Fill in the amount of credit transferred to other taxpayers in 2014.

Line 15. Subtract line 14 from line 13. This is the available early stage seed investment credit.

Required Attachments to Schedule VC

To claim the early stage seed investment credit, you must file the following with Schedule VC:

- For corporations, partnerships, tax-option(S) corporations, limited liability companies, estates, or trusts:
 - Schedule VC
 - A copy of the certification issued by the WEDC to the business and to the fund manager.
 - A statement from the fund manager containing all of the following information:
 - Name and address of the fund manager.
 - For each investment, the date, total amount of investment, amount invested in a qualified new business venture, name and address of the qualified new business venture, and amount of tax credit.
- For claimants not receiving the credit passed through from a partnership, tax-option(S) corporation, limited liability company, estate, or trust:
 - Schedule VC
 - A copy of the certification issued by the WEDC to the business and to the fund manager.
 - A statement from the fund manager containing all of the following information:
 - Name and address of the fund manager.
 - For each investment, the date, total amount of investment, amount invested in a qualified new business venture, name and address of the qualified new business venture, and amount of tax credit.
- For claimants receiving the credit passed through from a partnership, tax-option (S) corporation, limited liability company, estate, or trust:
 - A copy of your Schedule 5K-1, 3K-1, or 2K-1.
 - Schedule VC

Recovery of Early Stage Seed Investment Credit

If you hold an investment on which a credit is based for less than three years, you must repay to the Department of Revenue the amount of the credit that you received for that investment unless the investment becomes worthless, as determined by the WEDC, during the 3-year period, or you kept the investment for no less than 12 months and a bona fide liquidity event, as determined by the WEDC, occurs during the 3-year period.

Part III – Sale or Transfer of Early Stage Seed Investment Credit

For taxable years beginning on or after January 1, 2009, a person who is eligible to claim the early stage seed investment credit may sell or otherwise transfer the credit to another person who is subject to tax if the person receives prior authorization from the investment fund manager and the manager then notifies the WEDC and the Department of Revenue of the transfer and submits with the notification a copy of the transfer documents. No person may sell or otherwise transfer a credit more than once in a 12-month period. The WEDC may charge any person selling or otherwise transferring a credit a fee equal to one percent of the credit amount sold or transferred. The entity selling the tax credits will be required to recognize a capital gain on the sale of the credits equal to the difference between the basis of the tax credits, which would be zero unless the seller previously purchased the tax credits for consideration, and the amount of consideration received for the credits. The character of the capital gain as either short-term or long-term is determined based on the amount of time between the date the seller made the qualifying investment and the date the credits are sold. If the time period is more than one year, it is a long-term capital gain; if the time period is one year or less, it is a short-term capital gain.

The entity purchasing the tax credits will recognize capital gain income when the credits are used to offset a Wisconsin income tax liability. The capital gain recognized is equal to the difference between the purchaser's basis in the tax credits, which is the value of consideration paid for the tax credits and any transaction costs incurred to acquire the tax credits, and the amount of Wisconsin income tax liability satisfied by use of the tax credits. The character of the capital gain as either short-term or long-term is determined based on the amount of time between the date the purchaser acquired the tax credits and the date the credits are used to offset the purchaser's Wisconsin income tax liability. If the time period is more than one year, it is a long-term capital gain; if the time period is one year or less, it is a short-term capital gain.

Lines 1, 2, & 3. Fill in the information requested regarding the transfer in 2014 of early stage seed investment credit by a person eligible to claim the credit to a person subject to tax under ch. 71 or subch. III or ch. 76.

Additional Information

For more information, you may:

- E-mail your questions to DORFranchise@revenue.wi.gov
- Send a FAX to (608) 267-0834
- Call (608) 266-2772
(Telephone help is also available using TTY equipment. Call the Wisconsin Telecommunications Relay System at 711 or, if no answer, (800) 947-3529. These numbers are to be used only when calling with TTY equipment.)