

Instructions for 2009 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 Department of Commerce administers the qualified new business venture program. To qualify for an investment tax credit, the investor must first apply to the Department of Commerce 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 Department of Commerce web site at www.commerce.wi.gov or write to the Wisconsin Department of Commerce, P.O. Box 7970, Madison, WI 53707-7970.

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 consultants, 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 \$4 million in investments that qualify for angel investment tax credits (for taxable years beginning after December 31, 2007, and before January 1, 2011).
- Have not received aggregate private equity investment in cash of more than \$10 million prior to being certified.

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

Line 1. Fill in the information requested regarding your investments in qualified new business ventures that the Department of Commerce has verified as first eligible for a tax credit for 2009.

Line 3. Fill in the angel investment credit passed through to you from an angel investment network that the Department of Commerce has verified as first eligible for a tax credit for 2009.

Line 4. Add lines 2 and 3. This is the total 2009 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 4. Show the beneficiaries’ portion of the credit to the left of line 4. Label it “Beneficiaries’ portion” and show the credit for each beneficiary on Schedule 2K-1.

Line 5. Include the other 25% (0.250) of the qualified angel investments that the Department of Commerce verified as first eligible for a tax credit in 2008. However, if you had already claimed 12.5% (prior to the law change in 2009 Wisconsin Act 2), only include the other 12.5% (0.125), not the whole 25% (.250). 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. 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:

- A copy of the qualified new business venture certification form provided by the Department of Commerce.
- The tax credit verification form issued by the Department of Commerce.

If the credit is passed through from a partnership, LLC treated as a partnership, estate, or trust, file a copy of your Schedule 3K-1 or 2K-1 with Schedule VC instead of the above information.

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.

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 Department of Commerce 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, 2008, 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 Department of Commerce has verified as eligible for a tax credit in 2009.

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

Line 10. Add lines 8 and 9. This is the total 2008 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 10 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 10 between the fiduciary itself and its beneficiaries based on their ownership interests or as specially allocated in their

governing or organic. Show only the fiduciary's portion of the credit on line 10. Show the beneficiaries' portion of the credit to the left of line 10. Label it "Beneficiaries' portion" and show the credit for each beneficiary on Schedule 2K-1.

Line 11. Include the other 25% (.250) of the early stage seed investment that the Department of Commerce verified as first eligible for a tax credit in 2008. Prepare a schedule detailing your computation of the amount reported on line 11 and submit it with Schedule VC.

Line 12. Add lines 10 and 11. 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:

- A copy of the certification issued by the Department of Commerce 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.

If the credit is passed through from a tax-option (S) corporation, partnership, LLC treated as a partnership, estate, or trust, file a copy of your Schedule 5K-1, 3K-1, or 2K-1, as appropriate, with Schedule VC instead of the above information.

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.

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 Department of Commerce 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 Department of Commerce may charge any person selling or otherwise transferring a credit a fee equal to one percent of the credit amount sold or transferred.