

ALERT: May 7, 2010

Connecticut Tax Credit Incentivizes Angel Investment in Start-up Businesses

The Connecticut legislature passed H.B. 5435 on May 1, 2010, which authorizes a personal income tax credit of up to \$250,000 for an “angel investor” who makes equity investments in start-up Connecticut businesses in specified sectors. If Governor Rell signs the bill – and it is expected that she will – the credit will equal 25 percent of cash investments larger than \$100,000 that are made in exchange for equity positions in eligible Connecticut businesses. The bill is to take effect July 1, 2010, and apply to taxable years commencing on or after January 1, 2010. This “Angel Tax Credit” is intended to assist Connecticut start-ups in obtaining financing by incentivizing angel investment.

Angel Investors

As defined in the bill, a person qualifies as an angel investor if he or she is an accredited investor under Securities and Exchange Commission rules (for example, an individual whose net worth exceeds \$1 million or whose annual income exceeds \$200,000). The credit is also available to networks of accredited investors but does not apply to 1) any person controlling a 50 percent interest or more in the business in which the investment is made; 2) venture capital companies; or 3) banks, trust companies and insurance companies. If the angel investor uses a partnership, S corporation or LLC for the investment, the tax credit will pass through to the partners, shareholders or members.

Eligible Businesses

In order to be eligible for a qualifying angel investment, a business must meet certain criteria. First, the business must be engaged in bioscience, advanced materials, photonics, information technology, clean technology or any other emerging technology as determined by the Connecticut Department of Economic and Community Development. The business must also have its principal place of business in Connecticut and:

1. have annual gross revenues of less than \$1 million in the most recent year;
2. have fewer than 25 employees, not less than 75 percent of whom reside in Connecticut;
3. have been operating in Connecticut for less than seven consecutive years;



For more information, please contact any of the individuals listed below:

R. Scott Beach ^{CT}
rsbeach@daypitney.com
(203) 862 7824

Richard D. Harris ^{CT}
rdharris@daypitney.com
(203) 752 5094

Charles H. Lenore ^{CT}
chlenore@daypitney.com
(860) 275 0119

David A. Swerdloff ^{CT}
daswerdloff@daypitney.com
(203) 977 7334

Mark G. Sklarz ^{CT}
mgsklarz@daypitney.com
(203) 752 5030

4. be primarily owned by the management of the business and their families; and
5. have received less than \$2 million in cash investment eligible for the Angel Tax Credit.

Businesses that meet the above criteria must apply to Connecticut Innovations, Inc., a quasi-public corporation, which will maintain a listing of eligible businesses.

Administration of Credits

An angel investor in an eligible business may apply to Connecticut Innovations, Inc., to reserve the credit. The aggregate annual amount of credits to be reserved under the bill is capped at \$6 million for fiscal years from July 1, 2010, through July 1, 2012, and \$3 million annually thereafter until July 1, 2014, when the program is set to expire. Credits must be claimed in the year the investment is made and may be carried forward for five taxable years. Angel investors receiving the credits may not transfer them to another taxpayer.

Whether you are a Connecticut start-up company exploring financing options or an investor evaluating a position in a Connecticut business, our attorneys would be happy to provide practical advice and assist you in all stages of the process.

Bar Admissions: Connecticut ^{CT}

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