

Angel Investors May be Eligible for Tax Credits

12 MAY 2010

CATEGORY:

ARTICLE

Connecticut entrepreneurs may get some additional help from angel investors this year with the passing of a bill by the Connecticut legislature. The bill authorizes personal income tax credits equal to 25% of the investment made (up to a cap of \$250,000) in early stage businesses within specific sectors, including bioscience, advanced materials, photonics, information technology and clean technology, provided the investment is at least \$100,000. The bill will take effect July 1, 2010 and was signed into law on May 12, 2010.

A person who qualifies as an accredited investor will qualify as an angel investor. For individuals, an accredited investor is defined (under SEC rules and regulations) as a person whose net worth exceeds \$1 million or whose annual income exceeds \$200,000. Under the bill, angel investors do not include:

- Someone who controls 50% or more of the business receiving the investment;
- A venture capital company; or
- Any bank, trust, insurance company or similar entity.

A qualifying business must have its principal place of business in Connecticut and have:

- Gross revenues of less than \$1 million in its most recent year;
- Fewer than 25 employees, at least 75% of whom must be Connecticut residents;
- Operated in Connecticut for less than seven consecutive years;
- Received less than \$2 million in eligible investments from angel investors; and
- Primary owners who are also the business managers.

To qualify for the tax credit, both the eligible business and its angel investors must apply to Connecticut Innovations, Inc., which will administer the credit program. The bill limits the total credits all angel investors may claim to \$6 million per year in fiscal years 2011 and 2012 and \$3 million per year in each subsequent fiscal year until fiscal year 2019, after which the authorization for the credits expires. Credits can only be claimed in the year the investment is made but may be carried forward for five years. Taxpayers receiving the credits cannot transfer them to other taxpayers.

We expect that the implementation of this program will stimulate the Connecticut economy by injecting much needed financing into the emerging company sector.