



Senate

General Assembly

File No. 298

February Session, 2010

Substitute Senate Bill No. 323

Senate, April 6, 2010

The Committee on Commerce reported through SEN. LEBEAU of the 3rd Dist., Chairperson of the Committee on the part of the Senate, that the substitute bill ought to pass.

***AN ACT CONCERNING ANGEL INVESTORS AND PROGRAMS
IMPLEMENTED BY CONNECTICUT INNOVATIONS, INCORPORATED.***

Be it enacted by the Senate and House of Representatives in General Assembly convened:

1 Section 1. (NEW) (*Effective July 1, 2010, and applicable to taxable years*
2 *commencing on or after January 1, 2010*) (a) As used in this section:

3 (1) "Angel investor" or "investor" means an accredited investor, as
4 defined in Rule 501 of Regulation D of the federal Securities Act of
5 1933, who may seek active involvement, such as consulting or
6 mentoring, in a business, but "angel investor" or "investor" does not
7 include (A) persons controlling fifty per cent or more of the
8 Connecticut business invested in by the angel investor or investor, (B)
9 a venture capital company, or (C) any bank, bank and trust company,
10 insurance company, trust company, national bank, savings association
11 or building and loan association for activities that are a part of its
12 normal course of business;

13 (2) "Cash investment" means money or money equivalent paid in

14 exchange for qualified securities;

15 (3) "Connecticut business" means any business owned by an
16 individual or a partnership, association or corporation, and domiciled
17 in Connecticut, or any corporation, even if a wholly-owned subsidiary
18 of a foreign corporation, that does business primarily in Connecticut,
19 or does substantially all of such business's production in Connecticut;

20 (4) "Qualified securities" means (A) any form of equity, including a
21 general or limited partnership interest, common stock, preferred stock,
22 with or without voting rights, without regard to seniority position and
23 whether or not convertible into common stock, any form of
24 subordinate or convertible debt, or both, with warrants or other means
25 of equity conversion attached, or (B) a debt instrument, including a
26 note or debenture that is secured or unsecured, subordinated to the
27 general creditors of the debtor and requiring no payments of principal,
28 other than principal payments required to be made out of any future
29 profits of the debtor, for at least a seven-year period after
30 commencement of such debt instrument's term.

31 (b) There shall be allowed a credit for an angel investor against the
32 tax imposed under chapter 229 of the general statutes for a cash
33 investment in the qualified securities of a Connecticut business by such
34 investor. The credit shall be in an amount equal to twenty-five per cent
35 of such investor's cash investment, provided no credit shall be greater
36 than one hundred twenty-five thousand dollars. The credit shall be
37 taken in the year in which such cash investment is made by the angel
38 investor.

39 (c) To be a cash investment qualifying for a tax credit pursuant to
40 this section, such investment shall be in a Connecticut business that (1)
41 has been approved as a qualified Connecticut business pursuant to
42 subsection (d) of this section; (2) had annual gross revenues of less
43 than five million dollars in the most recent income year of such
44 business; (3) has fewer than twenty-five employees, more than half of
45 whom reside in this state; (4) has been operating in this state for less
46 than ten consecutive years; (5) is primarily owned by the management

47 of the business and their families; and (6) receives less than one million
48 dollars in cash investments eligible for the tax credits provided by this
49 section. No investor may claim a credit pursuant to this section for
50 cash investments granted or contributed to Connecticut Innovations,
51 Incorporated.

52 (d) (1) A Connecticut business may apply to Connecticut
53 Innovations, Incorporated, for approval as a Connecticut business
54 qualified to receive cash investments eligible for tax credits pursuant to
55 this section. The application shall include (A) the name of the business
56 and a copy of the organizational documents of such business, (B) a
57 business plan, including a description of the business and the
58 management, product, market and financial plan of the business, (C) a
59 description of the business's innovative and proprietary technology,
60 product or service, (D) a statement of the potential economic impact of
61 the business, including the number, location and types of jobs expected
62 to be created, (E) a description of the qualified securities to be issued,
63 the consideration to be paid for the qualified securities, the amount of
64 any tax credits requested and the earliest year in which such tax credits
65 may be redeemed, (F) a statement of the amount, timing and projected
66 use of the proceeds to be raised from the proposed sale of qualified
67 securities, and (G) such other information as the executive director of
68 Connecticut Innovations, Incorporated, may require.

69 (2) Said executive director shall, on or before August 1, 2010, and
70 monthly thereafter, compile a list of approved applications,
71 categorized by the estimated amount of tax credits and type of
72 qualified securities offered, submitted by qualified Connecticut
73 businesses.

74 (e) (1) Any angel investor who intends to provide a cash investment
75 to a business on the list compiled pursuant to subsection (d) of this
76 section, may apply to the Commissioner of Revenue Services to reserve
77 a tax credit in the amount indicated by such investor. The aggregate
78 amount of all tax credits which may be reserved by the Commissioner
79 of Revenue Services shall be six million dollars annually for the fiscal

80 years commencing July 1, 2010, to July 1, 2012, inclusive, and shall be
81 three million dollars in each fiscal year thereafter. Any unused portion
82 of the tax credits reserved by the Commissioner of Revenue Services
83 for each year may be added to the amount reserved by said
84 commissioner for the following fiscal year. No credits may be allowed
85 under this section on or after July 1, 2020.

86 (2) The amount of the credit granted to any investor pursuant to this
87 section for any year shall not exceed the amount of tax due from such
88 investor under chapter 229 of the general statutes with respect to any
89 such taxable year. Any tax credit not used in the taxable year during
90 which the cash investment was made may be carried forward for the
91 five immediately succeeding taxable years until the full credit has been
92 allowed.

93 (3) Any credit allowed pursuant to this section may be sold,
94 assigned or otherwise transferred, in whole or in part, to one or more
95 taxpayers, and such taxpayers may sell, assign or otherwise transfer, in
96 whole or in part, such credit. If an investor sells, assigns or otherwise
97 transfers a credit to another taxpayer, the transferor and transferee
98 shall jointly submit written notification of such transfer to the
99 Commissioner of Revenue Services not later than thirty days after such
100 transfer. If such transferee sells, assigns or otherwise transfers a credit
101 under this section to a subsequent transferee, such transferee and such
102 subsequent transferee shall jointly submit written notification of such
103 transfer to the Commissioner of Revenue Services not later than thirty
104 days after such transfer. The notification after each transfer shall
105 include the credit certificate number, the date of transfer, the amount
106 of such credit transferred, the tax credit balance before and after the
107 transfer, the tax identification numbers for both the transferor and the
108 transferee, and any other information required by the Commissioner of
109 Revenue Services. Failure to comply with this subdivision shall result
110 in a disallowance of the tax credit until there is full compliance on the
111 part of the transferor and the transferee and for a second transfer, on
112 the part of the transferee, and the subsequent transferee.

113 (f) A review of the effectiveness of the credit shall be conducted by
114 Connecticut Innovations, Incorporated, by September 1, 2015. Such
115 review shall be submitted, in accordance with the provisions of section
116 11-4a of the general statutes, to the joint standing committees of the
117 General Assembly having cognizance of matters relating to commerce
118 and finance, revenue and bonding.

119 Sec. 2. Subsection (b) of section 32-35 of the 2010 supplement to the
120 general statutes is repealed and the following is substituted in lieu
121 thereof (*Effective October 1, 2010*):

122 (b) The corporation shall be governed by a board of fifteen directors.
123 Eight members shall be appointed by the Governor, (1) at least six of
124 whom shall be knowledgeable, and have favorable reputations for
125 skill, knowledge and experience, in the development of innovative
126 technology and technological processes including, but not limited to,
127 expertise in academic research, technology transfer and application,
128 the development of technological invention and new enterprise
129 development, and (2) one member shall be an angel investor in the
130 state. Three members shall be the Commissioner of Economic and
131 Community Development, the Commissioner of Higher Education and
132 the Secretary of the Office of Policy and Management, who shall serve
133 ex officio and shall have all of the powers and privileges of a member
134 of the board of directors. Each ex-officio member may designate his
135 deputy or any member of his staff to represent him at meetings of the
136 corporation with full power to act and vote in his behalf. Four
137 members shall be appointed as follows: One by the president pro
138 tempore of the Senate, one by the minority leader of the Senate, one by
139 the speaker of the House of Representatives and one by the minority
140 leader of the House of Representatives. Each member appointed by the
141 Governor shall serve at the pleasure of the Governor but no longer
142 than the term of office of the Governor or until the member's successor
143 is appointed and qualified, whichever is longer. Each member
144 appointed by a member of the General Assembly shall serve in
145 accordance with the provisions of section 4-1a. A director shall be
146 eligible for reappointment. The Governor shall fill any vacancy for the

147 unexpired term of a member appointed by the Governor. The
148 appropriate legislative appointing authority shall fill any vacancy for
149 the unexpired term of a member appointed by such authority.

150 Sec. 3. (NEW) (*Effective October 1, 2010*) (a) There is established a
151 Sidecar Investment Fund program to be administered by Connecticut
152 Innovations, Incorporated, for the purpose of providing grants to
153 match preseed financing or seed financing by angel investors investing
154 in companies in the state. "Angel investors" shall have the same
155 meaning as in section 1 of this act, and "preseed financing" and "seed
156 financing" shall have the same meanings as in section 32-34 of the
157 general statutes.

158 (b) To implement the program established in subsection (a) of this
159 section, the corporation shall establish criteria for providing matching
160 investments and shall develop and implement a plan to market the
161 program.

162 (c) The board of the corporation shall review and approve each
163 application for matching grants for such financing.

164 (d) The grants authorized pursuant to this section shall be allocated
165 as follows: (1) Ninety per cent of the investments shall match angel
166 investment funding; and (2) not more than ten per cent shall be set
167 aside to invest in state university student entrepreneurs receiving
168 angel investment funding. Not more than a fifty per cent match, up to
169 a maximum of two hundred fifty thousand dollars, shall be invested in
170 any single company.

171 (e) The corporation shall adopt procedures, pursuant to section 1-
172 121 of the general statutes, to implement the provisions of this section.

173 (f) A review of the effectiveness of the credit shall be conducted by
174 the corporation by September 1, 2015. Such review shall be submitted,
175 in accordance with the provisions of section 11-4a of the general
176 statutes, to the joint standing committees of the General Assembly
177 having cognizance of matters relating to commerce and finance,

178 revenue and bonding.

179 Sec. 4. Section 32-41w of the general statutes is repealed and the
180 following is substituted in lieu thereof (*Effective October 1, 2010*):

181 (a) There is established an early-stage venture capital program to be
182 administered by Connecticut Innovations, Incorporated, to provide
183 preseed financing, seed financing, start-up financing, early or first-
184 stage financing and expansion financing to companies in the state and
185 to provide matching funds for the federal Small Business Innovation
186 Research Program, as defined in subdivision (4) of section 32-344.

187 (b) In support of the program established in subsection (a) of this
188 section, the corporation and the Small Business Innovation Research
189 Office, established pursuant to subdivision (41) of section 32-39, as
190 amended by this act, shall establish criteria for awarding such
191 financing and shall develop and implement a plan to market the
192 program.

193 (c) The board of the corporation shall review and approve each
194 application for such financing.

195 (d) Funds provided for this section shall be allocated as follows: (1)
196 Not less than five per cent for preseed financing; (2) not less than ten
197 per cent for seed financing; (3) not less than ten per cent for start-up
198 financing; (4) not less than fifteen per cent for early or first stage
199 financing; [and] (5) not less than [forty] thirty per cent and not more
200 than [sixty] fifty per cent on expansion financing, as such terms are
201 defined in section 32-34; and (6) not less than ten per cent on matching
202 grants of fifty per cent, not to exceed fifty thousand dollars per grant,
203 for the small business innovation research program. The corporation
204 shall use not more than three per cent of such funds for administration
205 and marketing of such financial aid.

206 (e) The corporation shall adopt procedures, pursuant to section 1-
207 121, to implement the provisions of this section.

208 Sec. 5. Section 32-39 of the 2010 supplement to the general statutes is

209 repealed and the following is substituted in lieu thereof (*Effective*
210 *October 1, 2010*):

211 The purposes of the corporation shall be to stimulate and encourage
212 the research and development of new technologies, businesses and
213 products, to encourage the creation and transfer of new technologies,
214 to assist existing businesses in adopting current and innovative
215 technological processes, to stimulate and provide services to industry
216 that will advance the adoption and utilization of technology, to
217 achieve improvements in the quality of products and services, to
218 stimulate and encourage the development and operation of new and
219 existing science parks and incubator facilities, and to promote science,
220 engineering, mathematics and other disciplines that are essential to the
221 development and application of technology within Connecticut by the
222 infusion of financial aid for research, invention and innovation in
223 situations in which such financial aid would not otherwise be
224 reasonably available from commercial or other sources, and for these
225 purposes the corporation shall have the following powers:

226 (1) To have perpetual succession as a body corporate and to adopt
227 bylaws, policies and procedures for the regulation of its affairs and
228 conduct of its businesses as provided in section 32-36;

229 (2) To enter into venture agreements with persons, upon such terms
230 and on such conditions as are consistent with the purposes of this
231 chapter, for the advancement of financial aid to such persons for the
232 research, development and application of specific technologies,
233 products, procedures, services and techniques, to be developed and
234 produced in this state, and to condition such agreements upon
235 contractual assurances that the benefits of increasing or maintaining
236 employment and tax revenues shall remain in this state and shall
237 accrue to it;

238 (3) To solicit, receive and accept aid, grants or contributions from
239 any source of money, property or labor or other things of value, to be
240 held, used and applied to carry out the purposes of this chapter,
241 subject to the conditions upon which such grants and contributions

242 may be made, including but not limited to, gifts or grants from any
243 department or agency of the United States or the state;

244 (4) To invest in, acquire, lease, purchase, own, manage, hold and
245 dispose of real property and lease, convey or deal in or enter into
246 agreements with respect to such property on any terms necessary or
247 incidental to the carrying out of these purposes; provided, however,
248 that all such acquisitions of real property for the corporation's own use
249 with amounts appropriated by the state to the corporation or with the
250 proceeds of bonds supported by the full faith and credit of the state
251 shall be subject to the approval of the Secretary of the Office of Policy
252 and Management and the provisions of section 4b-23;

253 (5) To borrow money or to guarantee a return to the investors in or
254 lenders to any capital initiative, to the extent permitted under this
255 chapter;

256 (6) To hold patents, copyrights, trademarks, marketing rights,
257 licenses, or any other evidences of protection or exclusivity as to any
258 products as defined herein, issued under the laws of the United States
259 or any state or any nation;

260 (7) To employ such assistants, agents and other employees as may
261 be necessary or desirable, which employees shall be exempt from the
262 classified service and shall not be employees, as defined in subsection
263 (b) of section 5-270; establish all necessary or appropriate personnel
264 practices and policies, including those relating to hiring, promotion,
265 compensation, retirement and collective bargaining, which need not be
266 in accordance with chapter 68, and the corporation shall not be an
267 employer as defined in subsection (a) of section 5-270; and engage
268 consultants, attorneys and appraisers as may be necessary or desirable
269 to carry out its purposes in accordance with this chapter;

270 (8) To make and enter into all contracts and agreements necessary or
271 incidental to the performance of its duties and the execution of its
272 powers under this chapter;

273 (9) To sue and be sued, plead and be impleaded, adopt a seal and
274 alter the same at pleasure;

275 (10) With the approval of the State Treasurer, to invest any funds
276 not needed for immediate use or disbursement, including any funds
277 held in reserve, in obligations issued or guaranteed by the United
278 States of America or the state of Connecticut and in other obligations
279 which are legal investments for retirement funds in this state;

280 (11) To procure insurance against any loss in connection with its
281 property and other assets in such amounts and from such insurers as it
282 deems desirable;

283 (12) To the extent permitted under its contract with other persons, to
284 consent to any termination, modification, forgiveness or other change
285 of any term of any contractual right, payment, royalty, contract or
286 agreement of any kind to which the corporation is a party;

287 (13) To do anything necessary and convenient to render the bonds
288 to be issued under section 32-41 more marketable;

289 (14) To acquire, lease, purchase, own, manage, hold and dispose of
290 personal property, and lease, convey or deal in or enter into
291 agreements with respect to such property on any terms necessary or
292 incidental to the carrying out of these purposes;

293 (15) In connection with any application for assistance under this
294 chapter, or commitments therefor, to make and collect such fees as the
295 corporation shall determine to be reasonable;

296 (16) To enter into venture agreements with persons, upon such
297 terms and conditions as are consistent with the purposes of this
298 chapter to provide financial aid to such persons for the marketing of
299 new and innovative services based on the use of a specific technology,
300 product, device, technique, service or process;

301 (17) To enter into limited partnerships or other contractual
302 arrangements with private and public sector entities as the corporation

303 deems necessary to provide financial aid which shall be used to make
304 investments of seed venture capital in companies based in or
305 relocating to the state in a manner which shall foster additional capital
306 investment, the establishment of new businesses, the creation of new
307 jobs and additional commercially-oriented research and development
308 activity. The repayment of such financial aid shall be structured in
309 such manner as the corporation deems will best encourage private
310 sector participation in such limited partnerships or other
311 arrangements. The board of directors, executive director, officers and
312 staff of the corporation may serve as members of any advisory or other
313 board which may be established to carry out the purposes of this
314 subdivision;

315 (18) To account for and audit funds of the corporation and funds of
316 any recipients of financial aid from the corporation;

317 (19) To advise the Governor, the General Assembly, the
318 Commissioner of Economic and Community Development and the
319 Commissioner of Higher Education on matters relating to science,
320 engineering and technology which may have an impact on state
321 policies, programs, employers and residents, and on job creation and
322 retention;

323 (20) To promote technology-based development in the state;

324 (21) To encourage and promote the establishment of and, within
325 available resources, to provide financial aid to advanced technology
326 centers;

327 (22) To maintain an inventory of data and information concerning
328 state and federal programs which are related to the purposes of this
329 chapter and to serve as a clearinghouse and referral service for such
330 data and information;

331 (23) To conduct and encourage research and studies relating to
332 technological development;

333 (24) To provide technical or other assistance and, within available

334 resources, to provide financial aid to the Connecticut Academy of
335 Science and Engineering, Incorporated, in order to further the
336 purposes of this chapter;

337 (25) To recommend a science and technology agenda for the state
338 that will promote the formation of public and private partnerships for
339 the purpose of stimulating research, new business formation and
340 growth and job creation;

341 (26) To encourage and provide technical assistance and, within
342 available resources, to provide financial aid to existing manufacturers
343 and other businesses in the process of adopting innovative technology
344 and new state-of-the-art processes and techniques;

345 (27) To recommend state goals for technological development and
346 to establish policies and strategies for developing and assisting
347 technology-based companies and for attracting such companies to the
348 state;

349 (28) To promote and encourage and, within available resources, to
350 provide financial aid for the establishment, maintenance and operation
351 of incubator facilities;

352 (29) To promote and encourage the coordination of public and
353 private resources and activities within the state in order to assist
354 technology-based entrepreneurs and business enterprises;

355 (30) To provide services to industry that will stimulate and advance
356 the adoption and utilization of technology and achieve improvements
357 in the quality of products and services;

358 (31) To promote science, engineering, mathematics and other
359 disciplines that are essential to the development and application of
360 technology;

361 (32) To coordinate its efforts with existing business outreach centers,
362 as described in section 32-9qq;

363 (33) To develop a marketing campaign that promotes the state as a
364 place of innovation, which may be part of a larger marketing campaign
365 conducted by a commission, agency or political subdivision of the state
366 including, but not limited to, the Connecticut Commission on Culture
367 and Tourism, the Connecticut Development Authority or the
368 Department of Economic and Community Development;

369 [(33)] (34) To do all acts and things necessary and convenient to
370 carry out the purposes of this chapter;

371 [(34)] (35) To accept from the department: (A) Financial assistance,
372 (B) revenues or the right to receive revenues with respect to any
373 program under the supervision of the department, and (C) loan assets
374 or equity interests in connection with any program under the
375 supervision of the department; to make advances to and reimburse the
376 department for any expenses incurred or to be incurred by it in the
377 delivery of such assistance, revenues, rights, assets, or interests; to
378 enter into agreements for the delivery of services by the corporation, in
379 consultation with the department, the Connecticut Housing Finance
380 Authority and the Connecticut Development Authority, to third
381 parties which agreements may include provisions for payment by the
382 department to the corporation for the delivery of such services; and to
383 enter into agreements with the department or with the Connecticut
384 Development Authority or Connecticut Housing Finance Authority for
385 the sharing of assistants, agents and other consultants, professionals
386 and employees, and facilities and other real and personal property
387 used in the conduct of the corporation's affairs;

388 [(35)] (36) To transfer to the department: (A) Financial assistance, (B)
389 revenues or the right to receive revenues with respect to any program
390 under the supervision of the corporation, and (C) loan assets or equity
391 interests in connection with any program under the supervision of the
392 corporation, provided the transfer of such financial assistance,
393 revenues, rights, assets or interests is determined by the corporation to
394 be practicable, within the constraints and not inconsistent with the
395 fiduciary obligations of the corporation imposed upon or established

396 upon the corporation by any provision of the general statutes, the
397 corporation's bond resolutions or any other agreement or contract of
398 the corporation and to have no adverse effect on the tax-exempt status
399 of any bonds of the state;

400 [(36)] (37) With respect to any capital initiative, to create, with one
401 or more persons, one or more affiliates and to provide, directly or
402 indirectly, for the contribution of capital to any such affiliate, each such
403 affiliate being expressly authorized to exercise on such affiliate's own
404 behalf all powers which the corporation may exercise under this
405 section, in addition to such other powers provided to it by law;

406 [(37)] (38) To provide financial aid to enable biotechnology and
407 other technology companies to lease, acquire, construct, maintain,
408 repair, replace or otherwise obtain and maintain production, testing,
409 research, development, manufacturing, laboratory and related and
410 other facilities, improvements and equipment;

411 [(38)] (39) To provide financial aid to persons developing smart
412 buildings, as defined in section 32-23d, incubator facilities or other
413 information technology intensive office and laboratory space;

414 [(39)] (40) To administer the Renewable Energy Investment Fund
415 established pursuant to section 16-245n;

416 [(40)] (41) To provide financial aid to persons developing or
417 constructing the basic buildings, facilities or installations needed for
418 the functioning of the media and motion picture industry in this state;

419 [(41)] (42) To coordinate the development and implementation of
420 strategies regarding technology-based talent and innovation among
421 state and quasi-public agencies, including the creation and
422 administration of the Connecticut Small Business Innovation Research
423 Office to act as a centralized clearinghouse and provide technical
424 assistance to applicants in developing small business innovation
425 research programs in conformity with the federal program established
426 pursuant to the Small Business Research and Development

427 Enhancement Act of 1992, P.L. 102-564, as amended, and other
 428 proposals;

429 (43) To establish the Sidecar Investment program, as established in
 430 section 3 of this act, and provide moneys to said program from the
 431 Connecticut Innovations, Incorporated, Fund established pursuant to
 432 section 32-41a.

433 Sec. 6. Subsection (h) of section 32-35 of the 2010 supplement to the
 434 general statutes is repealed and the following is substituted in lieu
 435 thereof (*Effective October 1, 2010*):

436 (h) The corporation shall provide funding for the operation of the
 437 Connecticut Small Business Innovation Research Office in accordance
 438 with subdivision [(41)] (42) of section 32-39, as amended by this act.

This act shall take effect as follows and shall amend the following sections:		
Section 1	<i>July 1, 2010, and applicable to taxable years commencing on or after January 1, 2010</i>	New section
Sec. 2	<i>October 1, 2010</i>	32-35(b)
Sec. 3	<i>October 1, 2010</i>	New section
Sec. 4	<i>October 1, 2010</i>	32-41w
Sec. 5	<i>October 1, 2010</i>	32-39
Sec. 6	<i>October 1, 2010</i>	32-35(h)

Statement of Legislative Commissioners:

"Paid" was added in subdivision (2) of section 1 to achieve the intent of the committee. Grammatical corrections or internal references were added to subsections (a), (c) and (e) of section 1, subsection (b) of section 2 and subsection (b) of section 3 for clarity and consistency with the style of the general statutes.

CE *Joint Favorable Subst.*

The following Fiscal Impact Statement and Bill Analysis are prepared for the benefit of the members of the General Assembly, solely for purposes of information, summarization and explanation and do not represent the intent of the General Assembly or either chamber thereof for any purpose. In general, fiscal impacts are based upon a variety of informational sources, including the analyst's professional knowledge. Whenever applicable, agency data is consulted as part of the analysis, however final products do not necessarily reflect an assessment from any specific department.

OFA Fiscal Note

State Impact:

Agency Affected	Fund-Effect	FY 11 \$	FY 12 \$
Department of Revenue Services	GF - Revenue Loss	Up to \$6 million	Up to \$6 million
CT Innovations Inc. (quasi-public)	Various - Cost	See Below	See Below

Note: GF=General Fund

Municipal Impact: None

Explanation

The bill, which authorizes and expands certain tax credits and requires a statewide marketing campaign, results in a revenue loss up to \$6 million and significant costs to Connecticut Innovations, Incorporated (CII)¹. It is anticipated that any costs incurred by CII would come from its operating funds, which reduces funding available for current investments and programs.

Angel Investors

The bill authorizes an angel investor program administered by CII. The bill could result in a General Fund revenue loss to the personal income tax of up to \$6 million (the cap) in FY 11 and FY 12, and up to \$3 million per year thereafter. The revenue loss is a result of the bill authorizing income tax credits for people who invest in qualified Connecticut start-up businesses. However, the initial revenue loss is likely to be less than \$6 million because of the limited number of Angel Investors currently active in Connecticut.

¹ CII is a quasi-public state agency that does not receive resources from the General Fund. It provides assistance for: (a) development of new business; (b) research and development of new businesses; and (c) financing.

CII must determine a company's eligibility as an Angel Investor, maintain a database of such approved businesses that is updated monthly, and review the credit's effectiveness, which is anticipated to result in personnel² costs of \$59,323, plus fringe benefits, and indirect overhead costs of \$17,532.

Sidecar Investments

The bill requires CII to make grants to recipients of Angel Investments out of its investment income, which will reduce the amount of support available for current investment programs. It is anticipated CII will incur personnel costs³ of \$96,000, indirect overhead of \$28,080, and program development and marketing costs of \$20,000 to implement this program.

Early Stage Venture Capital

The bill expands CII's early stage venture capital program to make grants to businesses receiving certain federal funding for small businesses, which will reduce the amount of support for current programs. CII will incur personnel costs⁴ of \$96,000, indirect overhead of \$28,080, and program development and marketing costs of \$20,000 to expand this program.

Statewide Marketing Campaign

The bill requires CII to develop a marketing campaign which may result in potentially significant costs.

The Out Years

The annualized ongoing fiscal impact identified above would continue into the future subject to inflation.

² Personnel include a 0.5 FTE Investment Analyst and a 0.2 FTE Investment Manager

³ Personnel costs include: 0.25 FTE for an Investment Analyst, 0.25 for an Associate Investment Analyst and 0.5 for an Investment Manager.

OLR Bill Analysis**sSB 323*****AN ACT CONCERNING ANGEL INVESTORS AND PROGRAMS
IMPLEMENTED BY CONNECTICUT INNOVATIONS,
INCORPORATED.*****SUMMARY:**

This bill authorizes income tax credits for people who invest in qualified Connecticut start-up businesses (i.e., angel investors). The credit equals 25% of the cash investment, up to \$125,000. Total credits cannot exceed \$6 million per year in FY 11 and FY 12 and \$3 million per year in subsequent fiscal years. (The revenue services commissioner may add unused credits to the subsequent year's cap.) Connecticut Innovations, Inc. (CII) must administer the credits, and investors cannot claim credits after June 30, 2020.

The bill increases CII's capacity to promote angel investments in other ways. It allows CII to grant funds to businesses receiving angel investments and makes a conforming change to CII's statutory powers and duties. It also places an angel investor on CII's 15-member board without increasing its size by requiring the governor to include an angel investor among the eight board members she appoints.

The bill increases CII's capacity to provide capital for newly formed and developing businesses, regardless of whether they received angel investments. It does this by authorizing grants matching those a business receives from the federal Small Business Innovation Research (SBIR) program. CII must provide the grants under its Early Stage Venture Capital program.

Lastly, the bill requires CII to develop a marketing campaign

⁴ Personnel costs include: 0.25 FTE for an Investment Analyst, 0.25 for an Associate Investment Analyst and 0.5 for an Investment Manager.

promoting the state as a place of innovation. The campaign can be part of a larger one conducted by other state agencies.

EFFECTIVE DATE: October 1, 2010, except for the angel investor tax credits, which take effect July 1, 2010 and apply to taxable years beginning on or after January 1, 2010.

ANGEL CREDITS

Eligible Investors

A person qualifies as an angel investor if he or she is an “accredited investor” under Security and Exchange Commission (SEC) rules. (Accredited investors are typically upper-income, high-net-worth individuals and entities—see BACKGROUND.) Angels usually invest in businesses that interest them and consequently seek a role in fostering the business’ development, usually as a consultant or mentor.

Under the bill, angel investors do not include:

1. someone who controls 50% or more of the business receiving the investment;
2. a venture capital company; or
3. any bank, savings and loan association, trust, insurance company, or similar entity for activities that are part of its normal business.

Businesses Eligible for Angel Investments

The bill specifies criteria a business must meet before an angel can invest in it and claim a credit. The business must have its principal place of business in Connecticut; it may be a wholly-owned subsidiary of a foreign corporation as long as it does most of its business in Connecticut or produces most of its products or services here.

In either case, the business must have:

1. gross revenues under \$5 million in its most recent income year;

2. fewer than 25 employees, more than half of whom are Connecticut residents;
3. operated in Connecticut for less than 10 consecutive years; and
4. received less than \$1 million in investments from credit-eligible angel investors.

Lastly, the business' managers and their families must be the primary owners and, as described below, the business must be identified by CII as eligible for angel investment.

The bill creates a mechanism for connecting eligible angel investors with eligible businesses seeking angel investments. A business seeking angel investment must apply to CII for approval as an eligible business. CII must establish and maintain a list of such businesses and make it available to angel investors for review. CII will add an eligible business to list if it provides:

1. its name and a copy of its organizational documents;
2. a business plan describing the business and its management, product, market, and financial plan;
3. a statement of its innovative and proprietary technology, product, or service;
4. a statement of its potential economic impact, including the number, types, and location of jobs it expects to create;
5. a description of the qualified securities it offers, their cost, the amount of requested tax credits, and the earliest year investors can redeem them;
6. the amount, timing, and projected use of the proceeds from the sale of securities; and
7. any other information CII requires.

CII's executive director must compile the list monthly, beginning no later than August 1, 2010. The bill requires him to do so by categorizing the businesses by the estimated amount of tax credits and the type of qualified security they offer. (Apparently, each business must estimate the credit based on the amount of investment it seeks.)

Accessing the Credits

An angel investor who plans to invest in an eligible business must apply to the revenue services commissioner to reserve angel tax credits. In doing so, the investor must identify the business and the amount he or she plans to invest.

The investor may claim the credit only for cash investments in the business' qualified securities, which can be equity or debt instruments. The former includes general or limited partnership interests, any type of common or preferred stock, or any combination of subordinate or convertible debt with a means of equity conversion attached. Debt instruments can be secured or unsecured, but must (1) be subordinated to the debtors' general creditors and (2) require no payments of principal, other than payments out of the debtors' future profits, for at least the first seven years of their term.

Angels cannot claim credits for cash they invest in CII.

Using or Transferring Credits

Credits cannot exceed the total income tax an investor owes in a given year. The investor must claim the credit in the same year he or she invested the funds, but can carry forward unused credits for up to five succeeding years. The investor can also transfer all or part of the credit to another taxpayer, and that taxpayer may transfer the credit a second time.

If the investor transfers the credit to another taxpayer, both must notify the revenue services commissioner within 30 days of the transfer, indicating:

1. the credit certificate number,

2. the transfer date,
3. the amount of credits transferred,
4. the tax credit balance before and after the transfer,
5. the tax identification numbers of both parties, and
6. any other information the commissioner requires.

Buyers and sellers who fail to notify the revenue services commissioner cannot claim the credits until they do so.

Credit Evaluation

The bill requires CII to review the credit's effectiveness, but the bill specifies no criteria for doing so. CII must complete the review by September 1, 2015 and report to the Commerce and Finance, Revenue and Bonding committees.

“SIDE CAR” INVESTMENT FUND

The bill requires CII to make grants to businesses and state university students who receive angel investments (i.e., Sidecar Investment Fund Program). The grants must match investments for developing a concept (i.e., “preseed” financing) or determining if it is viable for start-up financing (“seed” financing).

The bill requires CII to fund these grants out of its investment income. (CII funds its operations and programs from the returns on its investments in new businesses and technologies). In doing so, it limits the grants to one per business and the grant amount to half of the angel investment, up to \$250,000. It also limits the total grants for student entrepreneurs to no more than 10% of the funds available for the sidecar grants.

CII must establish criteria for awarding these grants and develop a plan to market them. It must also adopt procedures for administering the grants and its board must review and approve each grant application. It appears that CII must review the grants' effectiveness

and report to the Commerce and Finance, Revenue and Bonding committees by September 1, 2015.

SBIR MATCHING GRANTS

The bill expands CII's Early Stage Venture Capital Program to provide matching grants for businesses receiving federal SBIR funding. The SBIR Program provides grants to small, technology-based businesses for researching, developing, and commercializing new products. It provides the grants for two developmental phases. Phase I grants are for up to \$100,000 for determining if a proposed new technology is feasible. If it is, a Phase II grant is available for up to \$750,000 for developing the technology's prototype.

CII's Early Stage Venture Capital Program provides capital for similar purposes. Its grants go to newly established or expanding businesses in the early stages of developing new products or processes. Current law requires CII to apportion the program's funds based on the stages of a business' development. The bill requires CII to apportion at least 10% of the funds for the SBIR matching grants and correspondingly reduces the portions allocated for expansion financing from 40% to 60% to 30% to 50%.

The bill limits the matching grants to no more than 50% of each federal grant, up to \$50,000. CII must revise its criteria for awarding early stage venture capital grants to incorporate the SBIR matching grants. In doing so, it must consult with its SBIR Office.

BACKGROUND

Related Bills

The bill requires CII to develop a campaign to market Connecticut as a place of innovation. sSB 395, which the Commerce Committee favorably reported on March 18, requires the Department of Economic and Community Development (DECD) commissioner to develop the same marketing campaign.

The bill requires CII to evaluate the effectiveness of the angel credits and report its findings to the legislature by September 1, 2015. sHB

5357, which the Commerce Committee also reported on March 18, makes several changes to existing tax credit programs and requires the DECD and revenue services commissioner to report on the credits they administer. In doing so, they must summarize and evaluate the credits and report their findings to the Business Tax Credit and Policy Review Committee annually, beginning December 31, 2010.

Accredited Investors

SEC regulations (Regulation D, Rule 5010) define an accredited investor as:

1. a bank, insurance company, registered investment company, business development company, or small business investment company;
2. an employee benefit plan, as defined in the federal Employee Retirement Income Security Act, if (a) it has more than \$5 million in total assets or (b) a bank, insurance company, or registered investment advisor makes its investment decisions;
3. a charitable organization, corporation, or partnership with more than \$5 million in assets;
4. a director, executive officer, or general partner of the company selling a security;
5. a person with individual net worth, or a couple with joint net worth, over \$1 million at the time of the security purchase;
6. a person with income over \$200,000, or a couple with joint income over \$300,000, in each of the two most recent years and a reasonable expectation of the same income in the current year; and
7. a trust with more than \$5 million in assets that is not formed to acquire the offered securities, and whose purchases are made by a sophisticated person.

COMMITTEE ACTION

Commerce Committee

Joint Favorable Substitute

Yea 18 Nay 1 (03/18/2010)