LETTER FOR FINANCE COMMITTEE ON SENATE BILL 28

Senator John Fonfara
Co-Chair, Finance, Revenue and Bonding Committee
Room 3700, Legislative Office Building
Hartford, CT 06106

Representative Patricia Widlitz
Co-Chair, Finance, Revenue and Bonding Committee
Room 3700, Legislative Office Building
Hartford, CT 06106

Dear Senator Fonfara, Representative Widlitz and Members of Committee,

I am writing to offer my support for the Governor's recommendation to replenish the Angel Investment Tax Credit with $3 million in funding, and extend the program through 2016. However, I am opposed to new Section 7(g) of Senate Bill 28 which establishes a recapture provision against the tax credit.

As a retired business executive with experience in private equity and venture investing, I can tell you that this provision will not serve the purpose of the act to promote additional angel investing in Connecticut. In fact, such provision may even discourage angel investment in Connecticut companies when compared to other early stage companies located in states which may have more friendly tax credit laws. Investing at the stage where angel investors make their investment is risky under the best of circumstances. New Section 7(g) of Senate Bill 28 makes that investment even more risky by throwing in an element of uncertainty even after the investment has been made.

Angel investors have no, or very little, control over the management of the companies in which they invest, and, as such, such companies in which angels invest may be sold, relocate or hire and fire employees at their discretion. Under new Section 7(g), the investor will be obligated to repay all or a portion of the credit received, through no fault of the investor, for decisions made by a company's management to, within the two year period after the investor's investment, sell the company, relocate outside of Connecticut or failure to comprise 75% of its workforce from Connecticut residents.

Further, it is a sad but true fact that 70% of all start ups fail, many within the first two years of their first round of angel financing. Upon such failure of the business within the first two years of an angel's investment, the investor must repay under new Section 7(b) all or a portion of the tax credit received, even though the angel had no way of preventing such failure..

Many investors simply will not take that risk and, instead, will choose to invest their money in more friendly climates such as New York and Massachusetts, as was the case prior to Connecticut having the Angel Investment Tax Credit in place. At the very least, new Section 7(g) will not encourage angel investment in Connecticut companies, which is the very purpose of the tax credit program.

As you know, without angel funding, most start ups would and will not get off the ground. Further, Connecticut is at a distinct disadvantage in angel investment resources when compared to much larger pools of angels located in nearby New York City and Boston, not to mention Silicon Valley. The Angel Investment Tax Credit has significantly increased the number of investors, the number of deals, and therefore the start up activity in Connecticut. At a time when we are last in the nation in start up activity, Connecticut should be finding ways to enhance the number of start ups, rather than present limitations on the only source of funding for this critical stage of a company's growth.

For these reasons, I urge you to remove Section 7(g) from Senate Bill 28.

Sincerely,

William Avery
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Member, Angel Investor Forum