
OLR Bill Analysis

SB 1095

AN ACT EXPANDING THE ANGEL INVESTOR TAX CREDIT PROGRAM TO SOCIAL EQUITY APPLICANTS.

SUMMARY

The angel investor tax credit program provides personal income tax credits to angel investors (i.e., investors who the Securities and Exchange Commission considers “accredited investors”) who make qualifying cash investments in eligible Connecticut businesses. This bill extends the tax credit program to eligible cannabis establishments for which social equity applicants have been granted a license or provisional license (i.e., “cannabis businesses”). Under the bill, cannabis is marijuana as defined under existing law (see BACKGROUND).

Under the bill, eligible investors may receive income tax credits equal to 40% of their credit-eligible investments in qualifying cannabis businesses, subject to a \$15 million per fiscal year cap on the credits. The bill increases the total credits allowed under the program from \$5 million to \$20 million per fiscal year.

The bill makes numerous conforming changes to the program’s statutes. As under existing law, the angel investor tax credit program expires on June 30, 2024.

EFFECTIVE DATE: July 1, 2021

ELIGIBLE CANNABIS BUSINESSES

By law, a business must apply for and receive approval from Connecticut Innovations, Inc. (CI) in order to receive credit-eligible investments. The bill extends this requirement to “cannabis businesses,” which the bill defines as a “cannabis establishment” for which a “social equity applicant” has been granted a license or provisional license. It also establishes specific criteria these businesses

must meet in order to qualify for the tax credit program, as described below.

Cannabis Establishments

Under the bill, a “cannabis establishment” has the same meaning as in sSB 888 of the current session. Specifically, it is a producer, dispensary facility, cultivator, micro-cultivator, retailer, hybrid retailer (i.e., licensed to sell both recreational cannabis and medical marijuana), food and beverage manufacturer, product manufacturer, product packager, or delivery service, as those terms are defined in sSB 888.

Social Equity Applicants

The bill defines a “social equity applicant” as an applicant for a cannabis establishment license, provided the establishment is either at least 51% owned by, or under the day-to-day control of, an individual or individuals who:

1. have a prior arrest or conviction, as an adult or juvenile, for the sale, possession, use, manufacture, or cultivation of cannabis;
2. have a parent, spouse, or child who has such an arrest or conviction;
3. have been a resident of a disproportionately affected community for at least five of the 10 years immediately before applying for the license; or
4. reside on tribal land.

In addition, these individuals’ primary addresses must have been in Connecticut for at least five years immediately before applying for the license.

A “disproportionately affected community” is either of the following:

1. one of the top 20 communities on the most recent Public Investment Community index prepared by the Office of Policy and Management (OPM) (this index ranks municipalities in

descending order based on their relative wealth and need, according to specified criteria); or

2. a census tract in any municipality whose unemployment rate, and percentage of town residents below the federal poverty level, is greater than the statewide rate and percentage, respectively.

Eligibility Criteria

Under the bill, a cannabis business must generally meet the same criteria that existing law specifies for other eligible businesses. Specifically, the cannabis business must be primarily owned by the managers of the business and their families and have:

1. gross revenues of less than \$1 million in the most recent income year;
2. fewer than 25 employees, more than 75% of whom are Connecticut residents; and
3. received less than \$2 million in investments from credit-eligible angel investors.

Businesses eligible under current law must meet these same criteria, as well as having (1) their principal place of business in Connecticut and (2) operated in Connecticut for less than seven consecutive years.

CREDIT AMOUNT

Under the bill, angel investors who invest at least \$25,000 in approved cannabis businesses are eligible for a personal income tax credit equal to 40% of their investment, up to \$500,000. As under current law, investments in other approved businesses continue to qualify for a 25% credit, subject to the same minimum investment and maximum credit requirements.

CREDIT CAP

The bill establishes a \$15 million per fiscal year cap on the amount of tax credits CI may reserve for cash investments made in qualified

cannabis businesses. As under existing law, CI may reserve up to \$5 million in credits each fiscal year for investments in other qualified businesses. Thus, the bill increases, from \$5 million to \$20 million, the aggregate amount of angel investor credits CI may reserve each fiscal year, beginning with FY 22.

UNRESERVED CREDITS

Under current law, the amount of credits that CI may reserve each year for investments in emerging technology businesses is generally capped at 75% of the total amount of credits available that year. The bill specifies that this limitation applies only to credits available for investments under the current program (i.e., not to cannabis businesses).

By law, CI may exceed this 75% cap if any unreserved credits remain after April 1 in each year and it may prioritize the unreserved credits for veteran-owned, women-owned, or minority-owned businesses and businesses owned by individuals with disabilities. The bill additionally allows CI to reserve these unreserved credits for investments in qualified cannabis businesses. (It is unclear whether these credits would apply against the \$15 million cap for cannabis businesses or \$5 million cap for other businesses.)

BACKGROUND

Definition of Marijuana Under Existing Law

The law defines “marijuana” to include parts of a plant or species of the genus *cannabis*, whether or not it is growing, and including its seeds and resin; its compounds, manufactures, salts, derivatives, mixtures, and preparations; and cannabimon, cannabimol, cannabidiol (CBD), and similar compounds unless derived from hemp as defined in federal law. Among other things, the definition excludes a plant’s mature stalks; fiber made from the stalks; oil or cake made from the seeds; a compound, manufacture, salt, derivative, mixture, or preparation made from the stalks, except the extracted resin; and hemp (CGS § 21a-240(29)).

Related Bill

sSB 888 (File 569), favorably reported by the Judiciary Committee, contains identical provisions (§ 133).

COMMITTEE ACTION

Finance, Revenue and Bonding Committee

Joint Favorable

Yea 35 Nay 11 (04/22/2021)