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State Lags Behind In Tax Credits For 'Angels'

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Connecticut is rich in millionaires, but poor in tax credits for them — at least when they act as investors in local technology businesses.

And that combination could spell doom for the state's startups searching for capital to build their businesses, experts warn.

For years, "angel" investors — wealthy individuals who invest in early-stage businesses — have clamored for state lawmakers to grant them tax credits for a portion of the money they invest in Connecticut's fledgling businesses. Last month, the General Assembly failed to pass a proposal that would have created a 25 percent tax credit for angel investments in Connecticut startups.



It's the second straight year the legislature has turned back an angel investor credit.

One group of investors took their dollars to metro Boston, the traditional haven for New England startups.

"Within a week, we immediately closed on funding for a company in Cambridge," said Liddy Karter, executive director of the Angel Investor Forum, an East Hartford-based coalition of 76 angel investors.

Although she stopped short of blaming the absence of a tax credit on the decision to invest outside the state, Karter said the creation of a tax credit "would have given us an extra incentive to invest here, instead of somewhere else."

That decision-making process underscores the bigger picture of what's at stake in the debate over tax credits for angel investors. Startups depend on the cash — and often, savvy and experience — injected by these individuals into their young companies. Over the past decade, as venture fund managers have become increasingly wary of investing in early-stage businesses with unproven products and ideas, angels have become even more critical to companies just out of the gate.

Recognizing that trend, some states have created angel investor tax credits as basic pieces of their economic development strategies. In Rhode Island, credits are as much as 50 percent. In Maine they're 60 percent. In New York, they're 25 percent. In Massachusetts, tax credits are only 3 percent, although

there have been moves to raise that amount to 25 percent.

"It puts us at a significant disadvantage vs. other states," said state Sen. Gary D. LeBeau, D-East Hartford. "If we are going to have a chance to grow new companies, we need these credits; it's really essential."

The number of formal and informal angel investor groups has grown nationwide over the last decade. There are now about 250 formal groups, according to the Angel Capital Association, compared with an estimated 50 groups a decade ago. And as their numbers have grown, so has their willingness to work together, said Paul Silva, managing partner of Angel Catalysts, a Western Massachusetts firm that helps build and run angel investment groups.

At least once a quarter, angel investment groups from all over New England, including two from Connecticut, meet up and review what they see as the best investment opportunities from their respective areas.

There's little information about the total value of deals put together by these groups, but Karter estimated her group invests several million dollars over the course of the year. Often that money is pooled with investments from other groups. Last month for instance, Karter's group invested \$250,000 in Cambridge, Mass.-based software firm Crimson Hexagon; counting other angels, the company received \$2 million.

It's that potential for multi-million dollar investments that has enticed many states to create tax credit programs.

Critics of the credits say the public has no way of tracking how taxpayer money is spent.

"Increasing amounts of economic development resources are deployed through tax credits, which lack state oversight in how funds are spent," said Shelley Geballe, president of Connecticut Voices for Children, which opposed the most recent incarnation of the bill and has questioned the state's lucrative, 30 percent film credit.

The bigger concern, she said, is that the goals of private angel investors may conflict with the state's economic development agenda.

"Someone who is not elected is setting economic development priorities," Geballe said.

But in Connecticut, the nation's richest state per capita, advocates argue the credit would tap into the state's strength.

"One of the benefits to being in Connecticut is there are a lot of successful people who know how to evaluate a company for what it's worth, and to make wise investments," said Ernst Renner, founder of Manchester-based software startup, VGO Software.

Renner is looking for investors to take his company global, and said the appeal of angel investors is that "they provide a lot of coaching, mentoring and business savvy. It's not just the money, it's also the intangibles. Without the tax credits, they are being lured to make investments out of state — and it makes business sense for them to do that. It's just unfortunate for Connecticut's startups."

Of course, the absence of a tax credit won't necessarily stop angel investors from working with companies in Connecticut — it just makes it a little costlier.

Kevin Bouley, founder of research firm Nerac in Tolland, created a small incubator inside of Nerac that works with about a half-dozen startups. He's is part of an informal group of eight angel investors who look to invest and work with startups in central Connecticut.

"On a personal level, I continue to do it and have been doing it for years in the absence of a tax credit," Bouley said. But he added, "The absence of a bill that levels the playing field with competing states leaves us at a disadvantage."

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