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## Angel Investing Jumps With State Tax Credit

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By MARA LEE [maralee@courant.com](mailto:maralee@courant.com)

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It's not clear yet whether Connecticut's 18-month-old angel investor tax credit will be the job creator its authors envisioned, but loosening the eligibility two months ago has surely been popular.

The Connecticut legislature's jobs package bill passed in May 2010 allowed angel investors who put at least \$100,000 into a young, small Connecticut company in certain technology and science fields to deduct a quarter of that investment from their state income taxes. If their income tax liability isn't large enough to use up \$25,000 — you'd need to earn nearly \$400,000 a year to owe that much — they can carry the balance forward for several years.

Connecticut Innovations, a quasi-public agency that helps administer the investment program, has certified 37 companies that may receive the investments, from software firms to drug companies to companies that have designed consumer products, such as a hospital bed that can transfer its occupant to a chair, or an automatic shutoff for a boat if its driver goes overboard.

Thirty companies have gotten investments since the law first took effect, with about one-third of the companies only closing a round of investments once the threshold for the tax credit was lowered to \$25,000. That change took effect two months ago.

"There is an explosion in entrepreneurship and people want to get in on it," said Matthew Nemerson, president of the Connecticut Technology Council, which started lobbying for a tax credit for angel investors more than five years ago. "The legislation came at the right time to throw fuel on the fire. Because of the \$100,000 limit, the fuel [was] a little bit watered down."

In the two months since the credit was expanded, 21 Connecticut taxpayers have applied for the program, and together invested \$2.1 million in nine companies, a much faster pace than during the first 16 months. Some doubt that pace will continue, however.

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In all, 66 angel investors have qualified for the credit since it began. Investors must have at least \$200,000 in income and \$1 million in net worth to qualify for the credit.

Anthony Viggiano, who founded Autotether in 2007 and began contracting with Connecticut manufacturers to build the automatic boat-engine shutoff device two years ago, said he had been traveling around the East Coast pitching his company as a good investment to angels for more than a year with only three bites.

"You get like \$50,000, \$25,000 there, it's a tough road, it's a lot of work," Viggiano said.

But once the threshold for the tax credit dropped, he found another seven investors in the state. Between the two groups, they invested \$550,000 in Autotether, with a round that closed just before Christmas.

Viggiano will use the money for marketing. He and four others work for Autotether. "Within three or four months we're hoping to have enough cash flow to pay ourselves a reasonable salary," he said. Autotether hopes to break even by the end of the year.

When six Connecticut angel investors put \$600,000 into Farmington's Innovatient Solutions, immediately after the tax credit began, that money and a match of \$500,000 from Connecticut Innovations allowed CEO Jolinda Lambert to hire two people, for a total of six. Innovatient's software sends information to hospital patients about their treatment through the TVs in their rooms.

The company expects to sell more than \$1 million in software this year, making it too large to qualify for tax credits in its next \$2 million round of angel and venture capital.

"It made all the difference; without the funding and the contribution of individuals like CI and the angel investors, we would not be in existence," Lambert said. "We wouldn't have had the runway necessary to build the company."

Advocates for startups say that creating an incentive for more angel investing is important because venture capital firms have become less likely to nurture brand-new, unproven firms. Angel investors in Connecticut, by contrast, have put money into companies that are less than 6 months old — Lambert's company was 5 months old when it was funded, and didn't have a product yet.

"Venture capital keeps moving up and doing bigger deals and later deals," Nemerson said.

Peter Longo, president of Connecticut Innovations, said his organization has been moving toward new companies for four years. It started a pre-seed fund for micro investments in brand new companies in 2010. Of 37 CI investments in the fiscal year that ended in 2011, 15 were pre-seed.

Spurring more angel investing helps CI, because the state is sending it \$25 million more a year for the next five years. Not all of that will be poured directly into companies, but given that CI only invested \$9 million last fiscal year, it needs to find more companies deserving of its capital. "We think this [fiscal] year we'll close on \$20 million," Longo said.

But, Longo said, the pace of investing by smaller angel investors is unlikely to continue in 2012. "A lot of it was pent-up demand," he said.

Mary Anne Rooke, president and managing director of Connecticut's Angel Investor Forum, said the legislation is too new to say what its effect will be. Even before the limit was lowered, some \$25,000

and \$50,000 investors got the credit by setting up corporate structures that combined their investments with others; and even now, some who don't want to put in \$25,000 do the same.

But the credit does convince others to put in more, she said, including one man in December who was planning to invest \$10,000 or \$15,000, "and this pushed him up to \$25,000," she said.

But will those decisions make up for those who might have put in \$100,000 when the floor was higher, and now will put in \$75,000 or \$50,000?

David Cohen, co-owner of Standard Oil of Connecticut, stumbled into angel investing by accident with the son of a friend of a friend who was a founder of Higher One, Connecticut's poster-child for dorm-room startups. Cohen invested \$25,000 at first, and kept putting money in each time the company asked again. When Higher One went public, he cashed out half his stake, and made roughly 60 times what he put in.

That's not typical, he's quick to say, but he's used the proceeds to keep investing — he's now put money in seven Connecticut startups and five outside the state.


Angel Investor Forum puts about 70 percent of its money into companies outside the state, mostly in the Boston to New Jersey corridor. In seven years, only one company has provided an investment exit for the group, at a six-fold return.

Cohen always puts in at least \$100,000, so the lower floor doesn't matter for him, but he said being able to save on his state income taxes does put a thumb on the scale for Connecticut firms.

Viggiano, the Autotether founder, says the credit makes him think that Connecticut's business climate is changing. In decades as a manufacturing executive, he thought it was a difficult state to do business in.

"I think that lower amount is going to open up a huge opportunity for a lot of people," he said. "It'll make a big difference for my company, and it will make a big difference for a lot of companies. No matter how good your idea is, you can't do it without capital."

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