



AUGUST 2010

New Incentives for Connecticut Investments and Jobs

In the last week of the 2010 legislative session, the General Assembly adopted and Governor M. Jodi Rell signed Public Act 10-75, which establishes a series of financial and tax incentives and modifies some existing tax credits. The purpose of Public Act 10-75 is to reinvigorate Connecticut's efforts at attracting new investment and creating new jobs. The legislation reflects the recommendations of the Majority Leaders' Job Growth Roundtable, which was convened in late 2009 to attempt to reverse the significant job losses sustained by the state since the beginning of the recession in 2007.

The new measures should be of interest to investors interested in leveraging investment opportunities in all stages of business development, including pre-seed, early-stage, and later-stage funding. This legal update summarizes the high points of the tax and financial incentives in the legislation.

TAX INCENTIVES

Angel Investor Tax Credit

The features of the Angel Investor Tax Credit include the following:

- A taxpayer that makes an investment of at least \$100,000 in the qualified securities of a Connecticut business qualifies for a tax credit against the personal income tax.
- Qualified angel investors do not include persons controlling 50 percent or more of the Connecticut-based business in which they invest, a venture capital company, or any bank.
- The tax credit is equal to 25 percent of the angel investor's cash investment, with a maximum credit of \$250,000 per investor.
- Investments must satisfy the following criteria:
 - The eligible business must be engaged in bioscience, advanced materials,

photonics, information technology, clean technology, or any other emerging technology as determined by the commissioner of the Department of Economic and Community Development (DECD).

- The eligible business must have a principal place of business in Connecticut and have been approved by Connecticut Innovations, Incorporated.
 - The eligible business must have annual gross revenues of less than \$1 million, have fewer than 25 employees, have been operating in Connecticut for less than seven years, be primarily owned by its management, and have received less than \$2 million in cash investments.
- Unused credit may be carried forward for five succeeding taxable years.
 - Angel investors may apply to Connecticut Innovations, Incorporated to reserve tax credits.
 - Credit is not transferable and is not refundable.
 - Credits are capped at \$6 million for FY 2011 and FY 2012 and \$3 million for fiscal years commencing thereafter until FY 2019, when no further credits will be available.

Observations – The Angel Investor Tax Credit is the only tax credit available exclusively for personal income taxpayers and merits the attention of companies interested in seeking start-up capital. As initially proposed, it was intended to be a transferable credit, but the ability to sell, assign, or otherwise transfer was stripped in the final version of the bill.

Small Business Job Creation Tax Credit

The features of the Small Business Job Creation Tax Credit include the following:

- The tax credit is available for a qualified small business (defined as an entity having fewer than 50 employees in Connecticut) that creates a new, full-time job and hires a new employee residing in the state.
- The credit is in the amount of \$200 per month per employee against liability arising under the premium tax on insurance companies, the corporation business tax, and the personal income tax.
- Seasonal or temporary jobs do not count toward the credit.
- Unused credit may be carried forward for two succeeding tax years and is not refundable.
- The credit is available for new jobs created up until December 31, 2012.
- The credit is not permitted when the new employee is an owner, member, or partner of the employer.
- Along with the Vocational Rehabilitation Job Creation Tax Credit and the Job Incentive Tax Credit (which was not changed by the legislation), all three credits are capped at \$11 million in any one fiscal year.

Vocational Rehabilitation Job Creation Tax Credit

The new Vocational Rehabilitation Job Creation Tax Credit works as follows:

- The tax credit is available for an employer that hires a new employee residing in the state.
- The credit is in the amount of \$200 per month for each new employee and may be applied against liability arising under the premium tax on insurance companies, the corporation business tax, and the personal income tax.
- The employee must have a disability, receive vocational rehabilitation services from the Bureau of Rehabilitation Services, work at least 20 hours per week, and start employment after January 1, 2010.
- Unused credit may be carried forward for two succeeding tax years and is not refundable.
- The credit is not permitted when the new employee is an owner, member, or partner of the employer.
- Along with the Small Business Job Creation Tax Credit and the Job Incentive Tax Credit, all three credits are capped at \$11 million in any one fiscal year.

Observations – The Small Business Job Creation Tax Credit, the Vocational Rehabilitation Job Creation Tax Credit, and the already existing Job Incentive Tax Credit (Conn. Gen. Stat. § 12-217ii) are collectively designed to stimulate job growth in Connecticut. The creation of the Small Business Job Creation Tax Credit and the Vocational Rehabilitation Job Creation Tax Credit reflects recent efforts by the General Assembly to extend tax credits to targeted taxpayers and represents a change in practice in Connecticut.

Because the new jobs tax credits are neither transferable nor refundable and carry with them a two-year carry forward, many new start-up businesses may not be in a position to take advantage of these credits in the short-term due to the lack of income. Instead, these credits would likely present established small businesses a valuable opportunity to generate cost savings while growing their businesses, as well as the ability for an individual partner or member of a pass-through entity to offset personal income tax liability by the credit.

Of the three job credits, the Small Business Job Creation Tax Credit provides the easiest qualification standards (less than 50 employees and no minimum job creation). The Vocational Rehabilitation Job Creation Tax Credit requires that an employee work the least number of hours (20 hours per week). While imposing the most burdensome qualifications (at least 10 new jobs must be created), the Job Incentive Tax Credit is potentially the most valuable with its credit equal to 60 percent of the tax deducted and paid over to the state. The Small Business Job Creation Tax Credit can only offset the premium tax on insurance companies, the corporation business tax, and the utility companies tax.

Sales and Use Tax Exemption for Renewable Energy and Clean Energy Technology Industries

The tax incentives for the expanded Sales and Use Tax Exemption for Renewable Energy and Clean Energy Technology Industries include the following:

- Legislation expands the existing sales and use tax exemption (codified under Conn. Gen. Stat. § 12-412(117)) by adding wind power electric generation systems to solar energy electricity generating systems, passive or active solar water or space heating systems, and geothermal resource systems that qualify for the exemption.
- In addition to the sale and use of machinery and equipment for such systems, exemption is now available for sales, storage, use, and consumption of tools, materials, supplies, and fuel used directly in this new class of renewable energy and clean energy technology

industries.

FINANCIAL AND TECHNICAL ASSISTANCE

Green Technology, Life Science, and Health Information Technology Loan Forgiveness Program

- Up to \$10,000 in loan forgiveness is available for Connecticut residents graduating after May 1, 2010, with degrees in fields related to green technology, life science, or health information technology.
- Qualified recipients must be employed in the state for at least two years in a job in a related field and must meet certain financial criteria.
- The amount of loan forgiveness is dependent upon whether the applicant receives a bachelor's degree (\$10,000 over 4 years), associate degree (\$5,000 over 2 years), or certificate (\$250).

Workforce, Education, and Training Initiative

- The board of trustees of the community-technical colleges is required to establish an advisory committee to perform the following:
 - Identify workforce needs, education and training requirements, support services, and partnerships in fields with available or growing employment opportunities and in regions with high unemployment
 - Examine the costs associated with program delivery, modification of existing programs, or development of new programs focused on high-need, high-growth fields
 - Leverage state funds in applications for federal funding
- The State Bond Commission shall issue bonds not exceeding \$1 million to fund the advisory committee's work.

Connecticut Credit Consortium (Small Business Assistance Revolving Loan Program)

- The Connecticut Credit Consortium provides qualified businesses (those employing less than 50 people) with direct loans and lines of credit.
- Principal and interest payments made on loans are to be dedicated to the "small business assistance account," which is to be expended by DECD for economic cluster-related programs; job training finance demonstration programs; job training or retraining meeting quality management standards; energy and environmental technologies deployment centers; pilot programs for matching grants for construction, renovation, or improvement of small manufacturing facilities; manufacturing competitiveness grants; and other targeted and general manufacturing initiatives and small business assistance.
- The amount of loans is capped at \$500,000 for each recipient and at \$15 million for all recipients.

Connecticut Innovations, Incorporated Pre-Seed Financing Account

- Connecticut Innovations, Incorporated is required to establish a program to provide pre-seed financing to qualified Connecticut businesses for the development of capital and supports services.
- Qualified businesses must be principally located in Connecticut, have not less than 75 percent of its employees working in Connecticut, and have private investment dollars in an amount not less than half of the financial assistance sought from the program.
- The State Bond Commission shall issue bonds not exceeding \$5 million to fund the advisory committee's work.
- The amount of pre-seed support is capped at \$150,000 for each eligible business and at \$15 million for all recipients.

For more information please contact a member of our State Tax or Government Relations Groups.

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