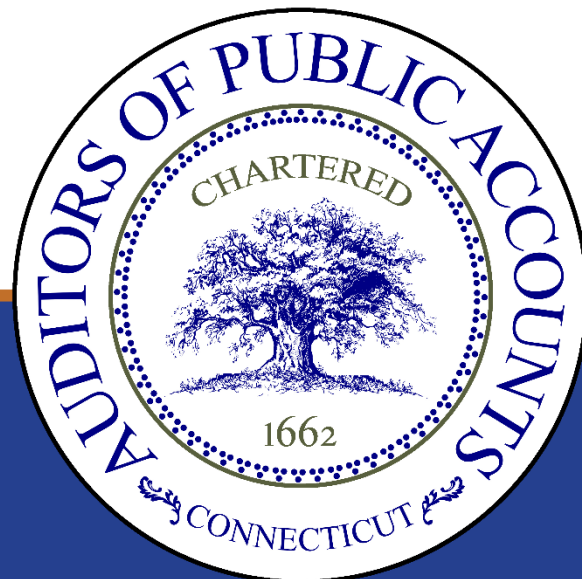


AUDITORS' REPORT

PERFORMANCE AUDIT

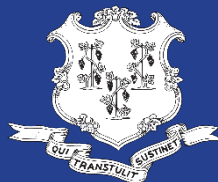
Connecticut Innovations' Administration of the Angel Investor Tax Credit Program

FISCAL YEARS ENDED JUNE 30, 2022 AND 2023



STATE OF CONNECTICUT
Auditors of Public Accounts

JOHN C. GERAGOSIAN
State Auditor



CRAIG A. MINER
State Auditor

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STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

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CRAIG A. MINER

January 8, 2026

INTRODUCTION

We are pleased to submit this audit of Connecticut Innovations' Administration of the Angel Investor Tax Credit Program for the fiscal years ended June 30, 2022 and 2023. Our audit identified internal control deficiencies; instances of noncompliance with laws, regulations, or policies; and a need for improvement in practices and procedures that warrant management's attention.

The Auditors of Public Accounts wish to express our appreciation for the courtesies and cooperation extended to our representatives by the personnel of Connecticut Innovations, Inc. (CI) during the course of our examination.

The Auditors of Public Accounts also would like to acknowledge the auditors who contributed to this report:

Daniel Doerr
Olivia Hall
Ryan Scala

A handwritten signature in black ink, appearing to read "D. Doerr".

Daniel Doerr
Principal Auditor

Approved:

A handwritten signature in black ink, appearing to read "John C. Geragosian".

John C. Geragosian
State Auditor

A handwritten signature in black ink, appearing to read "Craig A. Miner".

Craig A Miner
State Auditor

ABBREVIATIONS

ABBREVIATION	DEFINITION
CI	Connecticut Innovations, Inc.
DECD	Connecticut Department of Economic and Community Development
DRS	Connecticut Department of Revenue Services
DOL	Connecticut Department of Labor
QCB	Qualified Connecticut Business
STEAP	Small Town Economic Assistance Program

STATE AUDITORS' FINDINGS AND RECOMMENDATIONS

About the Audit

We have audited certain operations and features of Connecticut Innovations' Administration of the Angel Investor Tax Credit Program for the fiscal years ended June 30, 2022 and 2023. The purpose of our audit was to evaluate 1) the efficiency and effectiveness of Connecticut Innovations, Inc.'s administration and reporting of the credit, 2) Connecticut Innovations Inc.'s compliance with relevant state statutes, and 3) how the credit compares to Connecticut's economic priorities and other states' angel investor tax credit programs.

Public Act No. 10-75 established the state's Angel Investor Tax Credit. The credit allows angel investors to invest in qualifying businesses and receive twenty-five percent of the qualifying investment in personal income tax credits. An angel investor typically invests their money to help businesses grow, often during the early stages of development. In return for their investment, angel investors usually receive ownership equity or convertible debt, which can later convert into equity.

Our audit identified findings related to Connecticut Innovations, Inc.'s administration of the Angel Investor Tax Credit, and the continued effectiveness of the credit with respect to competitiveness and strategic alignment with certain Connecticut development priorities.

Our evaluation of Connecticut Innovations' Administration of the Angel Investor Tax Credit Program disclosed the following recommendations.

Finding 1

Connecticut Innovations, Inc. did not Ensure Compliance with the Statutorily Required Emerging Technology Credit Cap

Criteria	Section 12-704d(e)(3) of the General Statutes specifies that Connecticut Innovations, Inc. (CI) shall not reserve more than seventy-five percent of the Angel Investor Tax Credit for investments in emerging technology businesses, except if any such credit remains available for reservation after April first in any fiscal year.
Condition	CI did not track that it reserved not more than 75 percent of the Angel Investor Tax Credit for investments in emerging technologies for fiscal years 2018 through 2023.
Context	We asked CI if it tracked this threshold and complied with Section 12-704d(e)(3) of the General Statutes. We reviewed credit data from fiscal years 2018 through 2023 to see how much credit CI reserved for investments in emerging technology businesses before April 1st.
Effect	Because CI did not track the threshold, there is increased risk of statutory noncompliance. Noncompliance could limit access to investment funds for businesses not in the emerging technology sector.
Cause	CI believed its current operations met the intent of Section 12-704d(e)(3).
Recommendation	Connecticut Innovations, Inc. should develop internal controls to ensure compliance with Section 12-704d(e)(3) of the General Statutes. The CI annual report should include tracking and reporting of the percentage of credit it reserves before April 1st for investments in emerging technology businesses.
Agency Response	"CI partially agrees with this finding. CI fully complied with the emerging technology credit cap requirement and at no time during the past 6 fiscal years did CI reserve more than 75 percent of the Angel Investor Tax Credit for investments in emerging technologies prior to April 1 of each year. To ensure this continues, CI will upgrade its internal reporting on this issue."

Finding 2

Required Angel Investor Tax Credit Reports did not Sufficiently Present a Comprehensive Picture of the Program's Economic Impact on the State

Background

Section 12-704d(g) of the General Statutes requires Connecticut Innovations, Inc. to review and annually report on the cumulative effectiveness of the Angel Investor Tax Credit. The statute stipulates that the review must include:

- The number and type of Connecticut businesses and cannabis businesses that received angel investments
- The number and the aggregate amount of cash investments
- The status of each Connecticut business and cannabis business that received angel investments
- The number of employees each year following the year the business received the angel investment.

The statute also empowers, but does not require, CI to review and report on additional information.

Several states, including Maine, Kansas, Minnesota, Louisiana, and Iowa, require detailed reporting on their angel investor tax credits including the following types of information:

- The number, classification, and location of workers
- Jobs preserved because of cash investments
- An estimate of the economic multiplier effect of cash investments
- A summary of target businesses, such as women and minority-owned, and their locations
- The number of businesses eligible for investment under the angel credit that were unable to secure investments
- Types of businesses
- Total amount of investments

- Total tax credits issued
- An analysis of the geographic distribution of investors and businesses
- Tax credit and employment trends
- The economic return on investment

Criteria

To make informed decisions, legislators and other stakeholders should have a comprehensive understanding of the Angel Investor Tax Credit's performance, output, and impact.

Condition

CI limited its annual Angel Investment Tax Credit reports to the requirements in Section 12-704d(g) of the General Statutes. After researching other states' angel investor tax credit program reports, we noted CI did not include:

- The North American Industry Classification System (NAICS) codes of each business which allow for standardized organization, analysis, and comparison of economic data
- Cannabis-related businesses
- Aggregate amount of emerging technology
- Businesses owned by veterans, women, minorities, and individuals with disabilities
- The geographic distribution of investors and businesses
- Trends related to tax credits and employment
- Economic return on investments
- The number, classification, and location of employed workers
- Jobs preserved because of investments
- The number of businesses certified without receiving investments

Context

We reviewed 50 states' legislation and found 28 with active and 11 with inactive angel investor tax credits. Of the 28 active credits, we judgmentally selected eight states' reports for review.

We analyzed and compared the content of the CI annual and other reports with reporting practices in other states. We conducted interviews with staff from Kansas, Colorado, Maine, and Louisiana.

We analyzed CI company industry data and compared it to information on the Department of Labor website.

Effect

There is increased risk that stakeholders and decision makers did not receive sufficient details to effectively evaluate the credit's effectiveness and determine the credit's continuing value to the state.

Cause

Management only reported the information required in Section 12-704d(g) of the General Statutes.

Recommendation

Connecticut Innovations, Inc. should consider including additional information in its current reporting of the Angel Investor Tax Credit including:

- All cannabis-related businesses
- Emerging technology businesses as defined in Section 12-704d(a)(10)
- The number of businesses that are veteran, women, and minority-owned, and those owned by individuals with disabilities as defined by Section 12-704d(e)(3) of the General Statutes
- The North American Industry Classification System codes for each business.
- An analysis of the geographic distribution of investors and businesses
- Tax credit and employment trends
- The economic return on investment
- The number, classification, and location of employees
- Jobs preserved because of Angel Investor investments
- The number of businesses certified without receiving investments

Agency Response

"CI partially agrees with this finding. CI fully complied with its reporting requirements as outlined by the CT General Statutes. CI would support the recommendations made by State Auditors for the CT General Assembly to consider."

Finding 3

The Angel Investor Tax Credit has no Defined Purpose, Objectives, or Performance Measures

Background

Other Connecticut tax credits have a stated purpose or policy declaration in statute. They include Section 32-221 of the General Statutes for the Economic Development and Manufacturing Assistance Act and Section 12-217jj-1 of the Regulations of Connecticut State Agencies for the Film Production Tax Credit.

Colorado, Kansas, Louisiana, and Maine include the purpose of the angel credit in statute. Colorado statute requires that each bill with expiring tax expenditures includes a performance statement as part of a statutory legislative declaration. The Maine Seed Capital Tax Credit statute provides specific public policy objectives and allows ongoing evaluation of statutorily defined performance measures of the credit.

Criteria

Effective management requires goals and objectives that establish criteria to measure performance.

Condition

CI did not have clear objectives, goals, or performance measures for the Angel Investor Tax Credit, and none were included in its enabling legislation.

Context

We reviewed the legislative history, testimony, and transcripts during the enactment of the Angel Investor Tax Credit as well as guidelines for establishing program objectives and performance measures. We also reviewed angel investor tax credits from other states. We judgmentally selected Colorado, Kansas, Louisiana, and Maine as their statutes outlined legislative purpose, objectives, and performance measures. We interviewed auditors and analysts from Colorado and Maine.

Effect

CI, legislators, and stakeholders could not fully evaluate the effectiveness of the Angel Investor Tax Credit without the ability to measure against clear goals and objectives.

Cause

The enabling legislation did not establish objectives or priorities. CI did not consider establishing goals and performance measures as part of its role.

Recommendation

Connecticut Innovations, Inc., should work with the General Assembly to consider amending Section 12-704d of the General

Statutes to develop a stated purpose, objectives, and performance measures for the Angel Investor Tax Credit.

Agency Response

“CI partially agrees with this finding. In addition to complying with and submitting all required information contained in the CT General Statutes, CI also commissions an Economic Impact Assessment from a research firm which develops its own independent performance measures and does conclude on the success of the Angel Tax Program. CI shares this report with the Department of Economic and Community Development as well as others involved with CI’s programs.”

Finding 4

The Angel Investor Tax Credit’s Incentive Structure did not Strategically Align with Location-based Economic Development Priorities

Background

Many states align their tax credits with other economic development and equity priorities in their state. Arkansas, Arizona, Colorado, Georgia, Illinois, Louisiana, Maryland, Massachusetts, New Jersey, Ohio, and Tennessee offer tax credit incentives for qualified investors who invest in businesses that are in rural-designated or opportunity zones. Connecticut has several location-based economic development programs:

- Connecticut participates in the federal Opportunity Zone Program, designed to encourage private investment in rebuilding cities. Eligible qualified investors can benefit from significant federal tax advantages
- Connecticut has a list that identifies the state’s most fiscally and economically distressed municipalities. Agencies use it to determine needs for programs, including for economic development, as defined by Section 32-9p of the General Statutes
- Connecticut’s Small-Town Economic Assistance Program (STEAP), as defined by Section 4-66g of the General Statutes, funds economic development, community conservation and quality of life localities that are ineligible to receive Urban Action Bonds. The program is coordinated by the Office of Policy and Management

- Connecticut emphasizes development in rural communities in several ways including Climate Smart Agricultural Grants, Equipment-Sharing Hubs, and transportation and technology priorities for rural areas

Criteria

A strategically designed state economic development approach should align incentives to deliver the maximum impact to better achieve economic and other development priorities.

Condition

Between 2010 and 2023, only limited percentages of Angel Investor Tax Credit investments went to businesses in an area designated for location-based economic development. This table shows the distribution of Angel Investor Tax Credits investments:

Location-Based Incentive	# of Business	% of Total Businesses	Investment Dollars	% of Total Investment Dollars
Rural Town	15	6%	\$7,205,318	5%
Opportunity Zone	95	39%	\$60,800,277	39%
Distressed Town	18	7%	\$8,763,030	6%
STEAP Town*	146	59%	\$94,833,229	60%

*While 60 percent of the total dollar investment was received by businesses located in a STEAP town, STEAP towns account for 68 percent of all Connecticut towns.

Context

CI invested \$157,627,535 in 246 qualified businesses between 2010 and 2023. During this period, there were 371 businesses approved by CI to receive credit-eligible investments. We calculated the total investments made and number of businesses that received investments by town. We compared the location of businesses receiving investments to:

- The list of 68 towns designated as rural by the Connecticut Office of Rural Health
- The list of 27 municipalities federally designated an opportunity zone on the state’s opportunity zone website
- The 25 distressed municipalities listed on the Department of Economic and Community Development website, and

The list of 122 municipalities on the Small-Town Economic Assistance Program (STEAP) Fiscal Year 2024 Eligibility List. (Appendix B has a detailed index of investments by town).

Effect

The Angel Investor Tax Credit may not align with or enhance other economic development priorities.

Cause

The Angel Investor Program does not offer a location-based incentive as part of its tax credit.

Recommendation

Connecticut Innovations, Inc. should propose that the General Assembly consider increasing the credit value for investments that align with other location-based economic development priorities, including allowing an additional percentage of Angel Investor Tax Credit for investments in rural-designated zones, eligible Small-Town Economic Assistance Program municipalities, opportunity zones, and distressed municipalities.

Agency Response

"CI would comply with any amendments made by the CT General Assembly to the current legislation that would increase the credit value for investments that align with location-based economic development priorities."

Finding 5

The Connecticut Innovations Website did not Provide Information Regarding Key Aspects of the Angel Investor Tax Credit

Criteria

An efficiently and effectively run program provides comprehensive information needed by program participants and stakeholders.

Condition

The CI website lacked several pieces of information about the Angel Investor Tax Credit including:

- Links to application and recertification forms for qualified Connecticut businesses or investors
- Frequently asked questions
- Credit guidelines and requirements
- Link to Section 12-704d of the General Statutes
- Instructions on how and where to claim the credit on Schedule CT- IT Credit Form
- Instructions on how to transfer the credit

Several survey respondents and interviewees identified a lack of information and confusion with the process as a challenge, particularly with respect to credit transfer. We noted:

- One business owner reported having to compile a frequently asked questions document, relevant statutes, and credit guidelines document for potential investors
- One investor shared that he did not know who to contact about the transfer process
- Two businesses and two investors shared that the credits were hard or confusing to sell and CI did not provide information about this part of the process
- One business owner stated that he wished he knew how out-of-state investors could get the credit and sell it back sooner in the process, and
- Two businesses reported that there were challenges to necessary coordination and communication between their business, CI, and investors.

Context

We emailed a survey to 32 investors judgmentally selected from 194 that made a qualifying investment in 2022-2023. We received nine responses.

We emailed a separate survey to 174 businesses judgmentally selected out of the total of 371 qualified businesses from 2010-2023. We received 42 responses.

We conducted interviews with three businesses and two investors (of the 50 investors and businesses that answered the survey) on their experience with the Angel Investor Tax Credit. The interviewees were judgmentally selected based on their responses and willingness to participate in a follow-up interview.

We reviewed CI's Angel Investor Tax Credit forms and guidelines for the administration process. We asked CI about the credit transfer process and reviewed the documentation it provided. We reviewed CI's website.

We reviewed other states' angel investor tax credit programs and selected five states' credits that provided accessible and pertinent information on their websites to serve as benchmarks.

Effect

Without the availability of sufficient Angel Investor Tax Credit information, there is increased risk of participant confusion and dissatisfaction, and loss of potential investors and businesses.

Cause

The Angel Investor Tax Credit statute does not require CI to provide resources. CI has not asked businesses or investors what resources and information need.

Recommendation

Connecticut Innovations, Inc. should:

- Update its website to include pertinent information such as the Angel Investor Tax Credit statute, credit guidelines, frequently asked questions, and credit transfer information.
- Develop resources and information to assist investors that wish to sell or transfer their credit.
- Establish a process to gather participant feedback regarding the credit administration process.

Agency Response

“CI partially agrees with this finding. CI’s website does show legislative references for the program and has help line phone numbers available for any questions that may arise. CI will review if expanding the website to include legal language and tax language would be beneficial to the process.”

Finding 6

The Structure of the Angel Investor Tax Credit Program Prevented Connecticut Innovations from Prioritizing Credits for Businesses Owned by Veterans, Women, Minorities, and Individuals with Disabilities

Criteria

Section 12-704d(e)(3) of the General Statutes allows CI to prioritize certain unreserved credits for businesses owned by veterans, women, minorities, and individuals with disabilities, after April 1 of each year.

Condition

When reviewing the credit documentation, we noted CI did not actively prioritize credit reservations for investments to businesses owned by veterans, women, minorities, and individuals with disabilities. CI informed us there is confusion about how it could comply with the statutory language and the meaning of prioritization.

Context

We interviewed CI on the credit reservation process and how it prioritized credits for these specific groups. We reviewed 371 investments made since the inception of the credit and CI’s annual report of cumulative effectiveness between 2022 and 2023. From

fiscal years 2020 to 2023, the average amount of credit reserved after April 1st was \$948,277, or 20 percent.

We reviewed 50 states' legislation and found 28 with active and 11 with inactive angel investor tax credits. Of the 28 active credits, we identified that:

- The Illinois Angel Investor Tax Credit provides an incentivization structure in statute for businesses owned by veterans, women, minorities, and individuals with disabilities
- Minnesota's Angel Investor Tax Credit reserves \$2.5 million for minority and women-owned businesses, and businesses in Greater Minnesota, and
- Ohio and New Jersey provided additional tax incentives for disadvantaged groups.

Effect

The Angel Investor Tax Credit Program may have missed opportunities to invest in businesses owned by veterans, women, minorities, and individuals with disabilities.

Cause

Section 12-704d(e)(3) of the General Statutes does not provide a structure that would allow for the statutory prioritization of investment in businesses owned by veterans, women, minorities, and individuals with disabilities. Without a differential incentivization or other prioritization structure, it is not clear whether such prioritization of investment is possible.

Recommendation

Connecticut Innovations, Inc. should work with the General Assembly to clarify the priority for businesses owned by veterans, women, minorities, and individuals with disabilities in Section 12-704d(e)(3) of the General Statutes.

Agency Response

"CI does prioritize credits for businesses owned by veterans, women, minorities and individual with disabilities. At no time has any business that is owned by veterans, women, minorities and individual with disabilities been denied a reservation under the Angel Tax Program due to the program having no availability. CI will work with and would comply with any amendments made by the CT General Assembly to the current legislation."

Finding 7

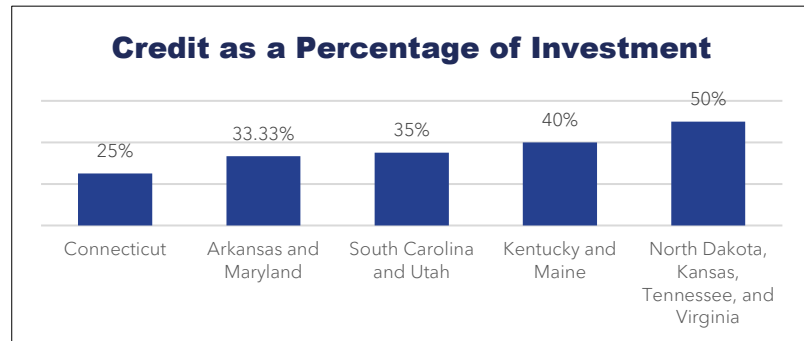
The Angel Investor Tax Credit's Eligibility and Incentivization Structure is Less Competitive than Other States and may Discourage Investment

Criteria

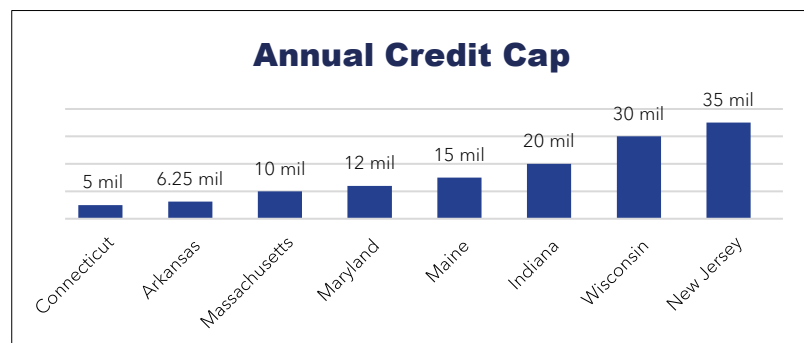
To be effective, state tax credits need to be competitive with other states to attract investors and offer incentives that meet the needs of investors, businesses, and the state.

Condition

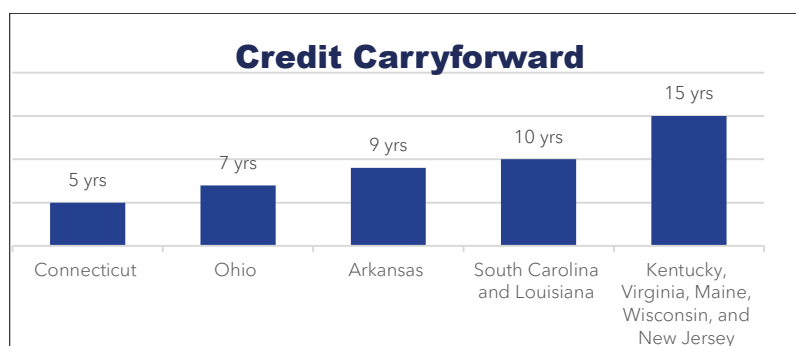
Connecticut's Angel Investor Tax Credit Program offers lower benefits and more restrictive eligibility requirements than other states. We noted that Connecticut's program provides a lower tax credit percentage (25% of investment) than several other states.



Connecticut's credit also has a lower annual credit cap (\$5 million) than other states.



Connecticut's program offers a shorter credit carryforward period (five years) than numerous states.



Connecticut offers a non-refundable credit. Iowa, Maryland, Maine, Minnesota, and New Jersey offer refundable angel investor tax credits.

Connecticut requires a higher minimum investment (\$25,000) than Minnesota (\$7,500), Colorado, Illinois, and Delaware (\$10,000).

Connecticut requires a higher in-state residency requirement (75%) than Massachusetts (50%), Colorado (50% or business headquarters in state), Delaware and Illinois (51%), and Arizona (two or more principal non-administration full-time employees).

During our interviews and review of survey responses we noted:

- Three businesses reported losing investors because they did not find the credit to be sufficient motivation
- One investor indicated that Connecticut's credit was less attractive than a neighboring state because the other state's credit is refundable
- Three businesses reported that they were hindered by the timing of the process and the credits were not available to investors during their round of funding
- One business indicated that lower minimum investment would have been beneficial to raising funds
- Three business owners stated that the 75% residency requirement was difficult for them to meet due to their need for specialized employees

Context

We interviewed CI about the credit reservation process. We reviewed annual reports, state statutes, legislative history, and other states' credit guidelines. We reviewed 50 states' legislation and found 28 with active and 11 with inactive angel investor tax credits. Out of the 28 active credits, we judgmentally selected for benchmarking:

- Ten states with a higher credit percentage than 25 percent

- Seven states with a higher credit cap than \$5 million
- Ten states with a larger carryforward than five years
- Six states offering refundable tax credits
- Four states offering a lower minimum amount of investment than \$25,000
- Five states with a lower in-state residency requirement

Appendix A has details about the 50 states' Angel Investor Tax Credit programs.

We emailed a survey to 32 investors judgmentally selected from 194 that made a qualifying investment in 2022-2023. We received nine responses.

We emailed a separate survey to 174 businesses judgmentally selected out of the total of 371 qualified businesses from 2010-2023. We received 42 responses.

We conducted interviews with three businesses and two investors (of the 51 investors and businesses that responded to the survey) on their experience with the Angel Investor Tax Credit. The interviewees were judgmentally selected based on their responses and willingness to participate in a follow-up interview.

Effect

There is increased risk that Connecticut lost investments to other states with more appealing benefits. There is also increased risk that investors and businesses found the Connecticut credit structure prohibitive or insufficient to motivate investment.

Cause

The economic competitiveness of the Angel Investor Tax Credit has not been reviewed since the 2009 Program Review and Investigations Report. CI does not appear to collect regular feedback from investors or businesses to help evaluate the attractiveness of the credit to investors and businesses.

Recommendation a

The General Assembly should consider reviewing the economic competitiveness of the Angel Investor Tax Credit against other states' credits and consider the degree to which the current credit structure provides benefits to investors and businesses sufficient to meet the program's objectives.

Recommendation b

Connecticut Innovations, Inc. should collect regular feedback from investors and businesses to help evaluate the attractiveness of the credit.

Agency Response

"CI would comply with any amendments made by the CT General Assembly to the current legislation that would make the incentive more attractive to investors. CI would also share with the CT General Assembly a report from a contracted research firm, which shows the success of the Angel Tax Program under the current guidelines."

OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with the requirements of Section 2-90c of the General Statutes we have audited certain operations of Connecticut Innovations' Administration of the Angel Investor Tax Credit Program. The scope of our audit included, but was not necessarily limited to, the fiscal years ended June 30, 2022 and 2023. The objectives of our audit were to:

1. Evaluate the efficiency and effectiveness of Connecticut Innovations, Inc.'s administration of the Angel Investor Tax Credit;
2. Determine whether Connecticut Innovations, Inc. has complied with state statute related to the administration of the credit; and
3. Examine how Connecticut Innovations, Inc. evaluates the effectiveness of the credit and how the credit compares to Connecticut's economic priorities and other states angel investor tax credit programs.

Our methodology included reviewing written policies and procedures, meeting minutes, and other pertinent documents. We interviewed Connecticut Innovations, Inc., the Department of Economic and Community Development, and Department of Revenue Services personnel as well as the Louisiana Department of Revenue Services, Colorado Office of the State Auditor, Office of Program Evaluation and Government Accountability (OPEG) of the Maine State Legislature, and the Kansas Legislative Post Audit Division. We also interviewed qualified investors and businesses who participated in the Angel Investor Tax Credit.

We conducted:

- A literature review and analysis of the national Angel Investor Tax Credits in other states
- A survey of investors and Connecticut-qualified businesses on their experience with the CT Angel Investor Tax Credit
- A statistical analysis of program details
- An analysis of all Angel Investor Tax Credit data collected from CI and their annual report of cumulative effectiveness
- A town-by-town analysis of the number of qualified businesses who were approved and how many received angel investment, and the amount per town
- An analysis of the Connecticut General Statutes
- An analysis of the economic priorities of the state
- Tests of selected transactions. This testing was not designed to project to a population unless specifically stated.

Businesses that did not qualify for the Angel Investor Tax Credit or inactive businesses were excluded from our analysis. We omitted data from the Social Equity Cannabis Tax Credit due to its repeal on July 1, 2023.

We obtained an understanding of internal controls that we deemed significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and assessed the risk that illegal acts, including fraud, and violations of contracts, grant agreements, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The accompanying program background is presented for informational purposes. We obtained this information from various available sources including, but not limited to, interviews, documents, and data provided by Connecticut Innovations, Inc., the Department of Economic and Community Development, and Department of Revenue Services management, and state information systems. It was not subject to the procedures applied in our audit of the program. For the areas audited, we:

1. Identified deficiencies in internal controls;
2. Identified apparent noncompliance with laws, regulations, contracts and grant agreements, policies, or procedures; and
3. Identified a need for improvement in management practices and procedures that we deemed to be reportable.

The State Auditors' Findings and Recommendations section of this report presents findings arising from our audit of Connecticut Innovations' Administration of the Angel Investor Tax Credit Program.

PROGRAM BACKGROUND

Credit Overview

Connecticut's Angel Investor Tax Credit is designed to encourage investment in promising start-up businesses that need capital to grow. Administered by [Connecticut Innovations, Inc. \(CI\)](#), the credit allows qualified angel investors to receive a 25 percent tax credit against their Connecticut state income tax liability when they invest a minimum of \$25,000 in qualifying Connecticut businesses. The maximum credit per angel investment is \$500,000 and there is an annual cap of \$5 million on total credits issued. Investors who receive the credit must claim it in the tax year of the investment. Investors can sell, transfer, or carryforward credits. CI reserves credits from July 1st to June 30th of the following calendar year. CI issues reservations on a first-come, first-served basis, based on when an application is completed and accepted. The credit is set to expire on June 30, 2028.

If companies qualify for the angel investment tax credit, CI lists their business information on the website so that angel investors can locate a start-up. The following table shows the investment and tax credit amounts:

Investment	Tax Credit Amount
\$25,000	\$6,250
\$50,000	\$12,500
\$100,000	\$25,000
\$250,000	\$62,500
\$500,000	\$125,000
\$1,000,000	\$250,000
\$1,500,000	\$375,000
\$2,000,000	\$500,000

To claim the credit, investors complete the Connecticut Department of Revenue Services Schedule CT-IT Credit form when filing their state income taxes. If the credit voucher exceeds the investor's Connecticut income tax liability for that year, they can carry it forward up to five years or until fully utilized.

From July 1, 2021, to July 1, 2023, investments in a qualifying cannabis business with a minimum \$25,000 investment could receive a 40 percent credit towards their state income tax called the Social Equity Cannabis Tax Credit. The aggregate amount of the credit was capped at \$15 million annually. This credit was operated separately from the Angel Investor Tax Credit. This audit did not evaluate this portion of the credit due to the elimination of the Social Equity Cannabis Tax Credit in 2023.

Credit Eligibility for Businesses

Businesses apply to CI for approval and must meet financial, workforce, residency, ownership, and support requirements as follows:

- Gross revenues of less than \$1 million in the most recent income year
- Fewer than 25 employees, at least 75 percent of which reside in Connecticut
- Operating in Connecticut for less than seven consecutive years

- Must be primarily owned by the businesses' management
- Received less than \$2 million in credit eligible investments

Angel Investor Eligibility

Connecticut statute defines "angel investor" as an accredited investor as defined by the federal Securities and Exchange Commission, or network of accredited investors who review new or proposed businesses for potential investment and who may seek active involvement, such as consulting and mentoring, in a qualified Connecticut business. Venture capitalists, banks and individuals controlling 50% or more of the business cannot be angel investors.

Application Process for Businesses

Businesses wishing to participate must submit the Qualified Connecticut Business Application. The applicant must supply a variety of documents that describe their business and demonstrate that it meets eligibility requirements. CI reviews the application for completeness and required criteria and sends an email to the business regarding its application status within 15 days. CI posts approved businesses on the Qualified Connecticut Business List. CI also sends an email to a nonapproved business outlining the reasons it did not meet the required criteria.

Credit Approval Process for Investors

An angel investor requests and completes an application to reserve a Connecticut tax credit reservation number before making any cash investment into a qualified Connecticut business. Upon approval, CI sends an email to the angel investor and the qualified Connecticut business with the Connecticut Angel Tax Credit reservation number and the Connecticut Angel Tax Credit voucher request application. The angel investor and the qualified Connecticut business complete the Connecticut Angel Tax Credit voucher application after the investment in the qualified Connecticut business is made. After reviewing and approving the application, CI emails the Connecticut Angel Tax Credit voucher to the angel investor and the qualified Connecticut business.

Reporting

Section 12-704d (g) of the General Statutes requires CI to report an annual review on the cumulative effectiveness of the credit. CI's reviews are published in the Department of Economic and Community Development's annual reports. The Department of Revenue Services publishes the amount of Angel Investor Tax Credit claims it receives every year in its annual report. Below is a summary of the information obtained from the reports.

Angel Investor Tax Credit (January 2014 to December 2023)	
Number of Investments	1,554
Investments in Qualified Connecticut Businesses	\$ 126,469,706
Tax Credits Issued (through 12/31/2023)	\$31,592,672
Tax Credits Claimed (through 2021, from DRS)	\$ 22,803,083

Angel Investments by Company Category, 2014-2023		
Bioscience	\$ 53,958,370	42%
Clean Technology	\$ 10,038,568	8%
Information Technology	\$ 37,736,863	30%
Advanced Materials	\$ 640,000	1%
Other	\$ 24,095,904	19%
Total	\$ 126,469,706	

Town-by-Town Credit Impact

We categorized all 371 qualified businesses into their respective towns. **Appendix A** shows the categorization. Finding 4 includes more detail about our concerns related to rural, opportunity zone, STEAP-eligible, or distressed communities.

State-by-State Comparison

We compared the specifics of Connecticut's tax credit to programs across the United States. Finding 7 outlines how Connecticut could consider improving its competitiveness. **Appendix B** shows this information by state.

APPENDICES

- A. Town-By-Town Angel Investment Data
- B. National Angel Investor Tax Credit Comparison

APPENDIX A

Town-By-Town Angel Investment Data

All CT Towns	Investments Per Town	Business Per Town	Businesses Receiving Investment	Businesses Not Receiving Investment	Rural	Opportunity Zone	STEAP Eligible	Distressed
Andover	\$0	0			Yes		Yes	
Ansonia	\$0	0	0			Yes		Yes
Ashford	\$0	0			Yes		Yes	
Avon	\$2,175,000	3	2	1			Yes	
Barkhamsted	\$0	0			Yes		Yes	
Beacon Falls	\$0	0					Yes	
Berlin	\$0	0					Yes	
Bethany	\$700,000	1	1	0	Yes		Yes	
Bethel	\$0	1		1			Yes	
Bethlehem	\$0	0			Yes		Yes	
Bloomfield	\$0	0						
Bolton	\$0	0			Yes		Yes	
Bozrah	\$0	1	0	1	Yes		Yes	
Branford	\$3,923,593	8	5	3			Yes	
Bridgeport	\$600,818	6	4	2		Yes		Yes
Bridgewater	\$0	0			Yes		Yes	
Bristol	\$0	1	0	1		Yes		
Broad Brook	\$0	1	0	1				
Brookfield	\$0	0					Yes	
Brooklyn	\$0	0			Yes			
Burlington	\$0	0			Yes		Yes	
Canaan	\$0	0			Yes		Yes	
Canterbury	\$0	1	0	1	Yes		Yes	
Canton	\$550,000	1	1	0			Yes	
Chaplin	\$0	0			Yes			Yes
Cheshire	\$82,500	2	2	0			Yes	
Chester	\$380,000	2	1	1	Yes		Yes	
Clinton	\$0	0					Yes	
Colchester	\$0	0					Yes	
Colebrook	\$0	0			Yes			
Columbia	\$125,000	3	2	1	Yes		Yes	
Cornwall	\$0	0			Yes		Yes	
Coventry	\$0	0					Yes	
Cromwell	\$475,000	2	1	1			Yes	
Danbury	\$100,000	1	1	0		Yes		

Darien	\$930,000	4	3	1			Yes	
Dayville Historic District	\$500,000	1	1	0				
Deep River	\$0	0			Yes		Yes	
Derby	\$0	0						Yes
Durham	\$1,360,314	2	2	0	Yes		Yes	
East Granby	\$0	0			Yes		Yes	
East Haddam	\$0	0			Yes		Yes	
East Hampton	\$0	0	0	0			Yes	
East Hartford	\$2,238,711	3	3	0		Yes		Yes
East Haven	\$0	1	0	1				
East Lyme	\$100,000	1	1	0			Yes	
East Windsor	\$0	1	0	1				
Eastford	\$0	0	0		Yes		Yes	
Easton	\$0	0			Yes		Yes	
Ellington	\$750,000	1	1	0			Yes	
Enfield	\$0	0						
Essex	\$0	0					Yes	
Fairfield	\$4,109,394	7	5	2			Yes	
Farmington	\$10,641,984	23	19	4			Yes	
Franklin	\$0	0			Yes		Yes	
Glastonbury	\$700,000	3	2	1			Yes	
Goshen	\$0	0			Yes		Yes	
Granby	\$0	0					Yes	
Greenwich	\$7,643,460	13	10	3			Yes	
Griswold	\$0	0						Yes
Groton	\$2,679,917	3	2	1		Yes		
Guilford	\$2,312,274	9	5	4			Yes	
Haddam	\$1,090,005	4	2	2	Yes		Yes	
Hamden	\$0	0				Yes		
Hampton	\$0	0			Yes		Yes	
Hartford	\$1,854,000	10	5	5		Yes		Yes
Hartland	\$0	0			Yes		Yes	
Harwinton	\$0	0			Yes		Yes	
Hebron	\$0	0			Yes		Yes	
Kent	\$0	0			Yes		Yes	
Killingly	\$0	0						
Killingworth	\$0	0			Yes		Yes	
Lebanon	\$0	0			Yes		Yes	
Ledyard	\$0	0						
Lisbon	\$0	0			Yes		Yes	Yes
Litchfield	\$0	0			Yes		Yes	
Lyme	\$0	0			Yes		Yes	
Madison	\$1,765,000	7	6	1			Yes	
Manchester	\$1,845,500	3	1	2		Yes		

Mansfield Center	\$115,000	1	1	0				
Mansfield	\$0	0				Yes		Yes
Marlborough	\$400,000	1	1	0	Yes		Yes	
Meriden	\$1,044,500	2	1	1		Yes		Yes
Middlebury	\$0	1		1	Yes		Yes	
Middlefield	\$0	0			Yes		Yes	
Middletown	\$4,850,000	5	5	0		Yes		
Milford	\$299,000	4	2	2			Yes	
Monroe	\$585,000	3	1	2			Yes	
Montville	\$0	0						Yes
Morris	\$0	0			Yes		Yes	
Naugatuck	\$875,001	1	1	0		Yes		Yes
New Britain	\$0	0				Yes		Yes
New Canaan	\$3,714,776	9	6	3			Yes	
New Fairfield	\$0	0					Yes	
New Hartford	\$0	0			Yes		Yes	
New Haven	\$17,812,771	42	31	11		Yes		
New London	\$650,000	1	1	0		Yes		Yes
New Milford	\$0	1	0	1			Yes	
Newington	\$0	1	0	1			Yes	
Newtown	\$0	1	0	1			Yes	
Norfolk	\$0	0			Yes		Yes	
North Branford	\$0	0			Yes		Yes	
North Canaan	\$0	0			Yes		Yes	
North Haven	\$2,818,451	7	3	4			Yes	
North Stonington	\$0	0						
Norwalk	\$10,178,251	14	12	2		Yes		
Norwich	\$0	0				Yes		Yes
Old Greenwich	\$3,725,000	5	3	2			Yes	
Old Lyme	\$0	0					Yes	
Old Saybrook	\$930,000	2	1	1			Yes	
Orange	\$750,000	2	1	1			Yes	
Oxford	\$1,212,500	1	1	0			Yes	
Plainfield	\$0	0						Yes
Plainville	\$0	0						
Plymouth	\$0	0						Yes
Pomfret	\$0	0			Yes		Yes	
Portland	\$1,000,000	1	1	0	Yes		Yes	
Preston	\$0	0			Yes			
Prospect	\$0	0					Yes	
Putnam	\$0	0			Yes	Yes		Yes
Redding	\$0	1		1	Yes		Yes	
Ridgefield	\$1,685,000	8	4	4			Yes	

Riverside	\$0	1		1			Yes	
Rocky Hill	\$705,000	2	2	0			Yes	
Roxbury	\$0	0			Yes		Yes	
Salem	\$0	0			Yes		Yes	
Salisbury	\$0	0			Yes		Yes	
Sandy Hook	\$0	1		1			Yes	
Scotland	\$0	0			Yes			
Seymour	\$0	2		2				
Sharon	\$0	1		1	Yes		Yes	
Shelton	\$7,106,000	9	6	3			Yes	
Sherman	\$0	0			Yes		Yes	
Simsbury	\$2,075,001	3	2	1			Yes	
Somers	\$0	1		1			Yes	
South Windsor	\$0	1		1			Yes	
Southbury	\$0	2	0	2			Yes	
Southington	\$1,595,000	5	4	1			Yes	
Southport	\$2,000,000	1	1	0			Yes	
Sprague	\$0	0			Yes			Yes
Stafford	\$0	0						
Stamford	\$8,748,000	27	19	8		Yes		
Sterling	\$0	0			Yes			Yes
Stonington	\$0	0					Yes	
Storrs	\$0	1	0	1			Yes	
Stratford	\$0	1	0	1				
Suffield	\$0	0					Yes	
Terryville	\$200,000	1	1	0	Yes			
Thomaston	\$0	0						
Thompson	\$0	0			Yes		Yes	
Tolland	\$2,050,000	3	2	1			Yes	
Torrington	\$1,075,000	1	1	0		Yes		Yes
Trumbull	\$1,755,000	5	3	2			Yes	
Union	\$0	0			Yes		Yes	
Vernon	\$50,000	1	1	0				
Voluntown	\$0	0			Yes			
Wallingford	\$2,550,000	3	3	0			Yes	
Warren	\$0	0			Yes		Yes	
Washington	\$0	0			Yes		Yes	
Waterbury	\$0	0				Yes		Yes
Waterford	\$0	0					Yes	
Watertown	\$0	0					Yes	
West Hartford	\$4,152,808	4	4	0		Yes		
West Haven	\$425,000	4	2	2		Yes		Yes
West Simsbury	\$1,276,583	1	1	0			Yes	
Westbrook	\$0	0			Yes		Yes	
Weston	\$243,000	5	2	3			Yes	

Westport	\$14,266,694	30	20	10			Yes	
Wethersfield	\$704,019	1	1	0				
Willington	\$0	0			Yes		Yes	
Wilton	\$327,700	4	1	3			Yes	
Winchester	\$0	0						Yes
Windham	\$0	0				Yes		Yes
Windsor Locks	\$0	0					Yes	
Windsor	\$2,095,000	2	2	0		Yes		
Wolcott	\$0	0					Yes	
Woodbridge	\$1,200,000	3	3	0	Yes		Yes	
Woodbury	\$750,000	1	1	0	Yes		Yes	
Woodstock	\$0	0	0		Yes		Yes	
Total	\$157,627,525	371	246	125				

APPENDIX B

National Angel Investor Tax Credit Comparison

State	Tax Credit	Enactment Year	Expiration or Repeal Year	Current Status	Amount of Tax Credit	Annual Program Cap in Credits	Refundable	Transferable	Carryforward	Tax incentives or credit reservation based on rural and/or opportunity zone/ disadvantaged groups
Alabama	None									
Alaska	None									
Arizona	Small Business Capital Investment Incentive (Angel Investment) Program	2006	2031	Active	30% -35%	2.5 million	No	No	3 Years	Yes
Arkansas	Equity Investment Tax Credit	2007	2028	Active	33%	6.25 million	No	Yes	9 Years	Yes
California	None									
Colorado	Innovation Tax Credit	2010	2010	Inactive	15%	750,000	No	No	5 Years	
Colorado	Advanced Industry Tax Credit	2014	2027	Active	25%- 35%	4 million	No	No	5 Years	Yes
Connecticut	Angel Investor Tax Credit Program	2010	2028	Active	25%	5 million	No	Yes	5 Years	
Connecticut	Social Equity Cannabis Angel Investor Tax Credit Program	2021	2022	Inactive	40%	15 million	No	Yes	5 Years	Yes*
Delaware	Angel Investor Job Creation and Innovation Act	2018	2022	Inactive	25%	5 million	Yes	No	No	
Florida	None									
Georgia	Angel Investment Tax Credit	2011	2018	Inactive	35%	5 million	No	Yes	5 Years	
Georgia	Georgia Agribusiness and Rural Jobs Tax Credit	2017	ongoing	Active	15%	100 million-duration of the program	No	No	Unlimited	Yes
Hawaii	High Technology Business Investment Tax Credit	1999	2010	Inactive	100%	None	No	Yes	5 Years	
Idaho	None									
Illinois	Angel Investment Credit Program	2011	2026	Active	25% -35%	15 million	No	No	5 Years	Yes*
Indiana	Venture Capital Investment Tax Credit Program	2004	ongoing	Active	25-30%	20 million	No	Yes	5 Years	
Iowa	Venture Capital Qualifying Business (Angel investor) Tax Credit	2002	ongoing	Active	25%	2 million	Yes	No	3 Years	
Kansas	Angel Investor Tax Credit	2005	2026	Active	50%	7.5 million	No	Yes	Unlimited	
Kentucky	Investment Fund Tax Credit	2015	ongoing	Active	40%	3 million	No	Yes	15 Years	
Kentucky	Angel Investment Tax Credit	2014	ongoing	Active	25%-40%	3 million	No	Yes	15 Years	
Louisiana	Angel Investor Tax Credit Program Act of 2011	2005	2030	Active	25%- 35%	7.2 million	No	Yes	10 Years	Yes
Maine	Seed Capital Tax Credit Program	1989	ongoing	Active	40%	15 million	Yes	No	15 Years	
Maryland	Innovation Investment Incentive Credit	2014	2025	Active	33%-50%	12 million	Yes	No	No	Yes
Maryland	Biotechnology Investment	2026	2028	Active	33% -50%	12 million	Yes	No	No	Yes

	Incentive Tax Credit									
Massachusetts	Angel Investor Tax Credit	2017	None	Active	20 %- 30%	25 million	No	No	3 Years	Yes
Michigan	Small Business Investment Tax Credit*	2011	2021	Inactive	25%	9 million	No	No	5 Years	
Minnesota	Angel Tax Credit	2010	2028	Active	25%	5 million	Yes	No	No	Yes*
Mississippi	None									
Missouri	None									
Montana	None									
Nebraska	Angel Investment Tax Credit	2011	2019	Inactive	40%	4 million	Yes	No	No	
Nevada	None									
New Hampshire	None									
New Jersey	Angel Investor Tax Credit	2013	ongoing	Active	20%-25%	35 million	Yes	No	15 years	Yes*
New Mexico	Angel Investment Tax Credit	2007	2025	Active	25%	2 million	No	No	5 Years	
New York	Qualified Emerging Technology Company Tax Credit	2000	ongoing	Active	10% -20%	Unknown	No	Yes	Unlimited	
North Carolina	Qualified Business Investment Tax Credit	2008	2013	Inactive	25%	7.5 million	No		7 Years	
North Dakota	Seed Capital Investment Credit	1993	ongoing	Active	45%	3.5 million	No	No	4 Years	
North Dakota	Angel Investor Tax Credit	2017	ongoing	Active		None	No	No	5 Years	
Ohio	Ohio Technology Investment Credit	1996	2013	Inactive	25% - 30%	45 million lifetime cap	No	No	15 Years	Yes*
Ohio	InvestOhio	2011	ongoing	Active	10%	50 million biennium	No	No	7 Years	
Oklahoma	Rural Venture Capital Formation Tax Credit	1998	2011	Inactive	30%	None	No	No	3 Years	
Oklahoma	Small Business Capital Formation Tax Credit	1998	2011	Inactive	20%	None	No	No	3 Years	
Oregon	None									
Pennsylvania	None									
Rhode Island	Innovation Tax Credit	2007	2016	Inactive	50%	1 million biennium	No	No	3 Years	
South Carolina	High Growth Small Business Job Creation Act	2013	2025	Active	35%	5 million	No	Yes	10 Years	
South Dakota	None									
Tennessee	Angel Tax Credit	2017	ongoing	Active	33%-50%	5 million	No	No	5 Years	Yes
Texas	None									
Utah	Life Sciences and Technology Tax Credits	2011	ongoing	Active	35%	Unknown	No	Yes	3 Years	
Vermont	None									
Virginia	Qualified Equity and Subordinated Debt Investments Credit	1999	ongoing	Active	50%	5 million	No	No	15 Years	
Washington	None									
Washington, D.C.	None									
West Virginia	High Growth Business Investment Tax Credit	2005	2008	Inactive	50%	1 million	No	No	4 Years	
Wisconsin	Qualified New Businesses Venture (QNBV)/ Early Stage Seed Investment Tax Credit/ Angel	2004	ongoing	Active	25%	30 million	No	Yes	15 Years	
Wyoming	None									

* States with an asterisk in the final column included incentivization for investment in minority owned businesses.