



AUDIT SUMMARY

Connecticut Innovations' Administration of the Angel Investor Tax Credit Program

Performance Audit

Fiscal Years Ended June 30, 2022 and 2023

BACKGROUND

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.

ABOUT THE AUDIT

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.

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.

[Link to full report](#)

 **7** **Total Findings**

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.

NOTEWORTHY FINDINGS



Findings

Connecticut Innovations, Inc. (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.

CI limited its annual reports on the Angel Investment Tax Credit to what is explicitly required by Section 12-704d(g) of the General Statutes. Several other states include additional information to demonstrate the economic impact of their programs.

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

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.

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



Recommendations

CI 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 (Recommendation 1).

CI 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; and the number of businesses certified without receiving investments (Recommendation 2).

CI 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 (Recommendation 3).

CI 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 (Recommendation 4).

CI 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; and establish a process to gather participant feedback regarding the credit administration process (Recommendation 5).