



Daniel Bluestein: Small-biz motivator is a "catch-22." PHOTO: Bob Giglione/LIBN

## Start-Up NY stalls on LI

By: Claude Solnik June 24, 2014 2 Comments

**It sounds like the best thing to happen to startups since the invention of the Internet.**

Television ads for Start-Up NY, New York State's small-business incentive program, portray a government eager to suspend taxes for new business as an investment in the future. The program's website is even more encouraging, describing how "businesses can operate 100 percent tax-free for 10 years" by setting up near college campuses and other large-scale R&D facilities, with "no income tax, business, corporate, state or local taxes, sales and property taxes, or franchise fees."

So why aren't entrepreneurs rushing to sign up? Why has Stony Brook University – one of a handful of Long Island facilities that would seem primed for a campus-based small-business generator – assisted with only two Start-Up NY applications since its plan was approved in March?

There are several answers. First, startups must meet fairly strict requirements to qualify, including promising to stay in New York for 10 years and to meet not-insubstantial job-creation marks. Second, incentives are only offered to companies setting up in select sites around those college campuses and research facilities – meaning business owners can't select properties not on the state's pre-approved list, even if it is geographically close to a campus.

Businesses may not receive the benefits at their existing locations, even in incubators on college campuses, although those companies may become eligible if they expand and move into another site designated as part of the program.

“The current tenants don’t get the benefit where they are currently situated,” noted Ann-Marie Scheidt, SBU’s director of economic development. “When they move into other Start-Up NY space, they will be eligible to receive the benefits.”

These factors fly in the face of those Start-Up NY ads, which suggest unabashedly that “New York is open for business.” At the very least, they’ve dampened enthusiasm for the program, even as new sites have been approved around SBU. The state is reviewing Farmingdale State College’s plan.

PolyNova, a Stony Brook startup developing a synthetic heart valve, is yet to apply but believes it will qualify for Start-Up NY benefits because it’s in SBU lab space and has yet to move into one of the region’s many business incubators.

“It’s like a catch 22” said Daniel Bluestein, an SBU professor who co-founded PolyNova. “If you’re in an incubator already, you’re not eligible. We seem to be eligible.”



Joseph Scaduto, Traverse Biosciences: Start-Up NY requirements are tough. P  
Bob Giglione/LIBN



Diane Giordano, Marcum LLP:  
Income breaks not a brilliant startup motivator.

Other insiders suggest the program’s very model is faulty. For instance, most startups already are spared direct income taxes, since they have no income.

“Startups don’t make money anyway,” said Diane Giordano, a partner at Melville accounting firm Marcum LLP.

While the program could be beneficial to employees of startup firms – “For the new employees, it may be a nice boon,” Giordano noted – this speaks directly to another built-in obstacle. Firms only qualify for the tax breaks if they meet certain hiring milestones, which automatically excludes most startups, which keep costs down by limiting staffing to start.

“You have to prove that you’re hiring people, but how are startup companies going to hire people?” Giordano said. “That’s how you lose your luster.”

Traverse Biosciences, a promising biotech startup also based in Stony Brook, recently won a \$50,000 grant from tech accelerator Accelerate Long Island and a \$50,000 investment from two venture capital firms, and even with that cash infusion has no hiring plans, according to CEO Joseph Scaduto.

“It’s not my intention, at least at the moment, to bring on additional employees,” Scaduto said.

PolyNova hasn't hired, either, but it intends to, meaning it could land in Start-Up NY's sweet spot. For a business like that, Scheidt noted, suspending income taxes for new hires could prove to be a major recruitment tool – critical when trying to lure experienced professionals to an untested enterprise.

“The kind of talented people they want to hire may feel trepidation about going to work for a startup,” Scheidt said. “The company can offer these talented people those personal income-tax benefits.”

There are other drawbacks as well. Start-Up NY is geared to offer even more incentives to businesses relocating from other states; in that way, it's trying to be a lure for established out-of-state entities rather than functioning purely as a new-business motivator. And even when companies do qualify, they must undergo a complex application process that, according to Giordano, can be costly in terms of both money and time.

Still, Long Island's R&D facilities are trying to plug the program. Cold Spring Harbor Laboratory, for instance, is marketing Start-Up NY's benefits as a plus at Broad Hollow Bioscience Park, which is on the state-approved site list.

Teri Willey, CSHL's vice president of business development and technology transfer, called the program a “major tax and business incentive for new tenants.”

As more sites like the bioscience park are approved by the state, some insiders believe Start-Up NY will heat up.

“It's an incredible tax incentive,” said Alon Kapen, a partner at Uniondale-based law firm Farrell Fritz who focuses on startups. “People are finding it difficult to find appropriate space, so they're talking about expanding the reach of the program.”

