

**GOVERNMENT OF INDIA
MINISTRY OF CORPORATE AFFAIRS**

**LOK SABHA
UNSTARRED QUESTION NO. 3953
ANSWERED ON FRIDAY, THE 9th DECEMBER, 2016/
AGRAHAYANA 18, 1938 (SAKA)**

ACCESS TO FUNDS FOR STARTUPS

QUESTION

3953. SHRI ASADUDDIN OWAISI:

**Will the Minister of CORPORATE AFFAIRS
be pleased to state:**

कारपोरेट कार्य मंत्री

- (a) whether the Government has made it easier for startups to access funds via the convertible note route and if so, the details thereof;
- (b) whether under this scheme funding of Rs.25 lakhs or more by convertible note in a single tranche not termed as a deposit;
- (c) if so, whether the Government has amended the Companies Laws to this effect; and
- (d) if so, the other facilities being given to encourage startups in the country?

ANSWER

**THE MINISTER OF STATE
IN THE MINISTRY OF CORPORATE AFFAIRS**
कारपोरेट कार्य मंत्रालय में राज्य मंत्री

(SHRI ARJUN RAM MEGHWAL)
(श्री अर्जुन राम मेघवाल)

(a) to (d):- The Companies (Acceptance of Deposit) Rules, 2014 have been amended to provide that an amount of twenty five lakh rupees or more received by a start-up company, by way of a convertible note (convertible into equity shares or repayable within a period not exceeding five years from the date of issue) in a single tranche, from a person shall not be treated as a deposit. Further, since the launch of startup India programme, a number of initiatives have been taken to promote startups. Details are as per Annexure-A.

ANNEXURE REFERRED TO IN ANSWER TO LOK SABHA UNSTARRED QUESTION NO. 3953 FOR 09.12.2016 REGARDING ACCESS TO FUNDS FOR STARTUPS

A. Measures taken by Ministry of Corporate Affairs

1. Relaxations for companies, including start-ups have been provided through changes in various rules notified under Companies Act, 2013, and include the following:-

a) the upper limit on the acceptance of deposits has been enhanced to 35% of net worth instead of earlier 25%;

b) allowing start-ups to issue Employee Stock Options to promoters working as employees;

c) increasing the limits with regard to sweat equity that can be issued by a company from 25% of paid up capital to 50% of paid up capital;

2. Seamless availability of names and quicker incorporation: - The name availability guidelines have been amended to allow the companies to select innovative names. The process of making the names available has been entrusted to a dedicated “Central Registration Centre” (CRC), whereby names are being approved within next business day. CRC is also handling incorporation/ registration of companies. Incorporation is being done in a day when the applicant opts for filing integrated incorporation form known as SPICe.

3. Exemptions under section 462 granted to four classes of companies – private companies, Government companies, Nidhis and charitable companies, exempting such companies from various compliances and other requirements of the Companies Act, 2013. The exemptions provided to private companies have reduced the compliance burden on start-ups.

B. Measures taken by Department of Industrial Policy and Promotion.

1. Fund of Funds

For providing fund support for Startups, Government has created a ‘Fund of Funds for Startups (FFS)’ at Small Industries Development Bank of India (SIDBI) with a corpus of Rs. 10,000 crore.

The FFS shall contribute to the corpus of Alternate Investment funds (AIFs) for investing in equity and equity linked instruments of various Startups. The FFS is managed by Small Industries Development Bank of India (SIDBI) for which operational guidelines have been issued. In 2015-16, Rs. 500 crores was released towards the FFS corpus.

2. Credit Guarantee Fund for Startups

• Since debt funding for Startups is perceived as high risk activity, a Credit Guarantee Fund for Startups is being setup with a budgetary corpus of Rs 500 crore per year, over the next four years, to provide credit guarantee cover to banks and lending institutions providing loans to Startups.

• Once rolled out, the scheme, in the lines of credit guarantee scheme for MSME, is likely to provide a huge impetus for enabling flow of much needed credit to the Startups which may run into several thousands of crores.

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3. Relaxed Norms in Public Procurement for Startups

Provision has been introduced in the procurement policy of Ministry of Micro, Small and Medium Enterprises (Policy Circular No. 1(2) (1)/2016-MA dated March 10, 2016) to relax norms pertaining to prior experience / turnover for Micro and Small Enterprises. Department of Expenditure has issued a notification for relaxing public procurement norms in respect of medium enterprises by all central Ministries/Departments.

4. Tax Incentives:

• 3 Year Tax Exemption

The Finance Act, 2016 (Section 80- IAC) has provision for Startups (Companies and LLPs) to get income tax exemption for 3 years in a block of 5 years, if they are incorporated between 1st April 2016 and 31st March 2019. To avail these benefits, a Startup must get a Certificate of Eligibility from the Inter-Ministerial Board.

• Removal of Angel Tax:

Tax exemption on investments made in excess of face value in the shares of a Startup company has been introduced on 14 June 2016.

• Tax Exemption on Capital Gains:

Section 54 EE has been introduced under the Finance Act, 2016 which provides for exemption of capital gain arising out of transfer of long term capital asset invested in a fund notified by Central Government.

Section 54GB of Income Tax Act, 1961 has been amended to provide for exemption from tax on capital gains arising out of sale of residential house or a residential plot of land if the amount of net consideration is invested in equity shares of eligible Startups.

5. Legal Support and Fast-tracking Patent Examination at Lower Costs

A scheme for Startups IPR Protection (SIPP) for facilitating fast track filing of Patents, Trademarks and Designs by Startups has been introduced. The scheme provides for expedited examination of patents filed by Startups. This will reduce the time taken in getting patents. The fee for filing of patents for Startups has also been reduced up to 80%. Panels of facilitators for Patents and Trademark applications have been formed to facilitate the process of patent filing and acquisition. The facilitators would provide legal guidance and handholding through the entire patent acquisition process free of cost.

6. Self-Certification based Compliance Regime:

Compliance norms relating to Environmental and Labour laws have been eased in order to reduce the regulatory burden on Startups thereby allowing them to focus on their core business and keep compliance costs low. Ministry of Environment and Forests (MoEF) has published a list of 36 white category industries. Startups falling under the "White category" would be able to self-certify compliance in respect of 3 Environment Acts -

• The Water (Prevention & Control of Pollution) Act, 1974;

• The Water (Prevention & Control of Pollution) Cess (Amendment) Act, 2003

- **The Air (Prevention & Control of Pollution) Act, 1981**

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Further, Ministry of Labour and Employment (MoLE) has issued guidelines to State Governments whereby Startups shall be allowed to self-certify compliance in respect of 6 Labour laws. These shall be effective after concurrence of States/UTs. The Acts are:

The Building and Other Constructions Workers' (Regulation of Employment & Conditions of Service) Act, 1996.

- **The Inter- State Migrant Workmen (Regulation of Employment & Conditions of Service) Act, 1979**
- **The Payment of Gratuity Act, 1972**
- **The Contract Labour (Regulation and Abolition) Act, 1970**
- **The Employees' Provident Funds and Miscellaneous Provisions Act, 1952**
- **The Employees' State Insurance Act, 1948**

So far 9 States have confirmed compliance to the advisory issued by Ministry of Labour and Employment (MoLE):

- **Rajasthan**
- **Uttarakhand**
- **Madhya Pradesh**
- **Chhattisgarh**
- **Delhi**
- **Jharkhand**
- **Gujarat**
- **Chandigarh**
- **Daman & Diu**

7. Setting up Incubators

- **Under Atal Innovation Mission, Niti Ayog will set up Atal Incubation Centers (AICs) in public and private sector. NITI Aayog has received 3658 applications (1719 from academic institutions and 1939 from non-academic institution) for setting up Atal Incubation Centers (AICs) from both Public and Private sector organizations.**
- **Under the Mission, a grant-in-aid of Rs. 10 crore would be provided to scale up an existing incubator for a maximum of 5 years to cover the capital and operational costs in running the center. NITI Aayog has received 232 applications for providing scale up support for established incubation centers.**

8. Setting up of Startup Centers and Technology Business Incubators (TBIs)

14 Startup Centres and 15 Technology Business Incubators are to be setup collaboratively by Ministry of Human Resource Development (MHRD) and the Department of Science and Technology (DST). Out of the 14 Startup Centers, 10 have been approved. Once MHRD releases its share of Rs. 25 lakhs each for the Startup centers, the Startup centers would be supported by DST by December, 2016.

The target of sanctioning 15 TBIs is expected to be achieved by December 2016.

9. Research Parks

7 Research Parks will be set up as per the Startup India Action Plan. Out of these 7, IIT Kharagpur already has a functional Research Park. Further, DST will establish 1 Research Park at IIT Gandhinagar and the remaining 5 shall be set up by Ministry of

Human Resource Development (MHRD) at IIT Guwahati, IIT Hyderabad, IIT Kanpur, IIT Delhi and IISc Bangalore.
