GOVERNMENT OF INDIA
MINISTRY OF COMMERCE & INDUSTRY
DEPARTMENT FOR PROMOTION OF INDUSTRY AND INTERNAL TRADE

LOK SABHA

UNSTARRED QUESTION NO. 4080.
TO BE ANSWERED ON WEDNESDAY, THE 18TH MARCH, 2020.

TAX EXEMPTION TO STARTUP COMPANIES

4080. SHRI SUMEDHANAND SARASWATI:

Will the Minister of **COMMERCE AND INDUSTRY** be pleased to state:
वाणिज्य एवं उद्योग मंत्री

(a) whether the Government has fixed any target to give tax exemption to startups with a view to provide employment opportunities for the country's youth;

(b) if so, the details of various startup schemes;

(c) whether the Government has allocated any budget for the startups; and

(d) if so, the fund allocated by the Government for this purpose along with the State-wise details thereof?

ANSWER
वाणिज्य एवं उद्योग मंत्री (श्री पीयूष गोयल)
THE MINISTER OF COMMERCE & INDUSTRY
(SHRI PIYUSH GOYAL)

(a) & (b): No, Sir. The Government has not fixed any target to give tax exemption to startups. However, provisions for tax exemptions to startups have been made, details of which are annexed at Annexure – I

(c) & (d): Government of India has established a Fund of Funds for Startups (FFS) with corpus of Rs. 10,000 crores, to meet the funding needs of startups. DPIIT is the monitoring agency and Small Industries Development Bank of India (SIDBI) is the operating agency for FFS. The total corpus of Rs. 10,000 crores is envisaged to be provided over the 14th and 15th Finance Commission cycles based on progress of the scheme and availability of funds. As on 18th February 2020, SIDBI has committed Rs 3123.20 crore to 47 SEBI registered Alternative Investment Funds (AIFs). These funds have raised a corpus fund of Rs. 25,728 crore. Further, the AIFs have invested a total of Rs. 3,378.47 crore into 320 startups out of which Rs. 912.91 crore have been drawn from Fund of Funds for Startups. Fund of Funds does not directly invest into startups but provides capital to SEBI-registered Alternate Investment Funds (AIFs), known as daughter funds, who in turn invest money in growing Indian startups through equity and equity-linked instruments. Thus, there is no direct fund allocation from DPIIT to States/UTs under Startup India initiative.

******

ANNEXURE – I

ANNEXURE REFERRED TO IN REPLY TO PARTS (a) & (b) OF THE LOK SABHA UNSTARRED QUESTION NO. 4080 FOR ANSWER ON 18.03.2020.

Details of Tax exemptions under Startup India initiative

i. **Income Tax Exemption on profits under Section 80-IAC of Income Tax Act**

A DPIIT recognized startup shall be eligible for full deduction on the profits and gains from business for any three consecutive years out of seven years from the year of incorporation of startup provided the "eligible start-up", a company or a limited liability partnership engaged in eligible business, fulfils the following conditions: —

(a) it is incorporated on or after the 1st day of April 2016 but before the 1st day of April 2021;
(b) the total turnover of its business does not exceed twenty-five crore rupees 88[in the previous year relevant to the assessment year for which deduction under sub-section (1) is claimed]; and
(c) it holds a certificate of eligible business from the Inter-Ministerial Board of Certification as notified in the Official Gazette by the Central Government;

There have been further amendments to this under the Finance Bill 2020, through which the provision for a deduction of an amount equal to 100% of the profits and gains derived from an eligible business by an eligible startup for three consecutive assessment years out of seven years has been proposed to be increased to 10 years. It has also been proposed that the total turnover of its business should not exceed Rs. 100 crores in the previous year relevant to the assessment year for which deduction under this section is claimed vis-à-vis the earlier norm of Rs. 25 crores. This amendment will take effect from 1st April 2021 and will, accordingly, apply in relation to the assessment year 2021-2022 and subsequent assessment years.

ii. **Income Tax Exemption on investments above fair market value under Section 56 of Income Tax Act**

Exemption from tax under the provisions of section 56(2)(viib) to Startups for issue of shares above fair market value on the basis of a self-declaration to the Central Board of Direct Taxes. The aggregate amount of paid up share capital and share premium of the startup after issue or proposed issue should not exceed Rs. 25 Crores Intimation for such exemption is shared by the Central Board of Direct Taxes (CBDT) with the startup. The form and process is defined under notification no. G.S.R. 127(E) dated 19th February, 2019 issued by DPIIT specifying the restrictions for further investments etc.

iii. **Amendment in Section 54GB of Income-tax Act**

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 prescribed stake of equity shares of eligible startup for utilizing the same for purchase of specified asset. Further to this, following amendments will come into effect from 1st April 2020

a. The condition of minimum holding of 50% of share capital or voting rights in the startup has been relaxed to 25%
b. Extension of period under which benefit under section 54GB from for sale of residential property can be availed up to 31st March 2021
c. Condition restricting transfer of new asset being computer or computer software is to be relaxed from 5 years to 3 years

iv. Introduction of Section 54EE in the Income Tax Act, 1961

Exemption from tax on long-term capital gain if such long-term capital gain is invested in a fund notified by Central Government. The maximum amount that can be invested is Rs. 50 lakh.

v. Amendment in Section 79 of Income Tax Act

Eligible Startups to carry forward their losses on satisfaction of any one of the two conditions:

a. Continuity of 51% shareholding/ voting power or
b. Continuity of 100% of original shareholders carrying voting power

vi. Pass Through of Losses

Pass through of losses allowed to Investment Funds i.e. Category I and II AIF similar to pass through of income. These amendments will take effect from 1st April 2020 and will, accordingly apply in relation to the assessment year 2020 – 2021 and subsequent assessment years.

vii. Inclusion of Category I & II AIF

Investment made by Venture Capital Fund of Category – I AIF in a startup was exempted from the applicability of the provisions of section 56 (2)(viib) of the IT Act. This exemption has been extended to all sub-categories of Category – I AIF and Category – II AIF via introduction of 'specified fund' in the said section.

viii. Amendment to Sections 156, 191 and 192 of the Income Tax Act

These amendments have been proposed in the Finance Bill 2020. They will enable employees receiving specified security or sweat equity share as perquisite under section 17(2)(vi) of an eligible startup referred to in section 80-IAC, to deduct or pay, as the case may be, tax on such income within fourteen days after the expiry of forty-eight months from the end of the relevant assessment year; or from the date of the sale of such specified security or sweat equity share by the assessee; or from the date of assessee ceasing to the employee of the person, whichever is earlier, on the basis of rates in force of the financial year in which the said specified security or seat equity share is allotted or transferred. This amendment will take effect from 1st April 2020. As per the earlier norms, the said perquisite including ESOPs were taxed in the hands of the employee at the time of exercise of the option.

****