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Start-ups with annual turnover of less than ₹25 cr to get tax breaks

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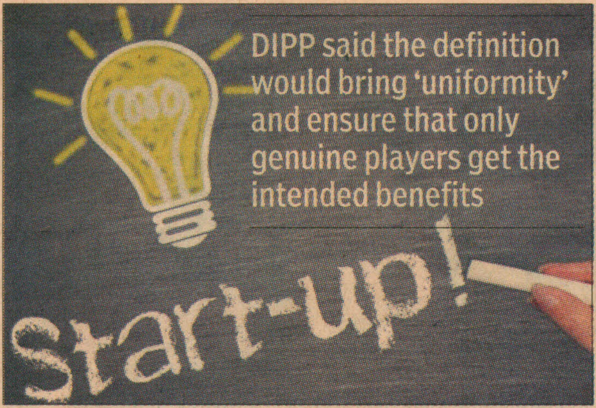

A COMPANY with an annual turnover of less than ₹25 crore in the first five years will be eligible for tax breaks and other incentives under the government's start-up policy if it fulfils certain conditions.

According to the definition notified by the department of industrial policy and promotion (DIPP), an entity will be called a start-up up to five years from the date of its incorporation/registration provided its turnover for any of the financial years doesn't exceed ₹25 crore. It must be working towards "innovation, development, deployment or commercialisation of new products, processes or services, driven by technology or intellectual property". A company working on "significantly improved existing product or service or process, that will create or add value for customers or workflow" will also be eligible for incentives if it fulfills other conditions. However, any such entity formed by "splitting up or reconstruction of a business already in existence" won't be considered a start-up.

DIPP said the definition would bring about "uniformity" and ensure that only genuine players get the intended start-up benefits.

Prime Minister Narendra Modi had on January 16 unveiled a package of incentives to boost the start-up ecosystem in the country, offering such firms a tax holiday and inspector raj-free regime for three years, capital gains tax exemption and a ₹10,000-crore corpus to fund them.

He had also announced a liberalised regime to help start-up businesses register patents, for which the fee will be slashed by 80%, apart from an easy exit option that will be provided under the bankruptcy Act so that start-ups can exit within 90 days. The Budget is expected to further bring clarity on the incentives concerning the start-ups.

According to the latest notification, such a company will be required to obtain a certificate of an eligible business from the inter-ministerial board of certification, comprising a joint secretary with the DIPP and representatives of the departments of science and technology as well as biotechnology.

The process of recognition as a start-up would be through mobile app or the DIPP portal. Start-ups will also be required to submit an application with various documents, including a letter of funding of not less than 20% in equity by any incubation fund/angel fund/private equity fund/ duly registered with Sebi which endorses the innovative nature of the business.

Tax exemptions and incentives such as exempting deemed tax on capital investments and exempting the businesses from paying service tax or value-added tax need to offered for any worthwhile boost to start-ups, said Krishan Malhotra, partner and national practice head (Tax) at Shardul Amarchand Mangaldas & Co. "Further it can also look at taxing only realised gains and provide mechanism to defer tax on ESOPS and share swaps," he added.

According to a report by Nasscom, India has become the third largest base of technology start-ups in the world, behind the US and the UK. The number of start-ups in the country has grown 40% from a year before and is expected to have crossed 4,200 in 2015. While the number of private equity funds, venture capitalists and angel investors investing in the space has doubled from last year, the funding has witnessed a 125% rise from 2014. The total funding in the India based start-ups is estimated to be nearly $5 billion by end-2015.