

Sitharaman Takes Startups' Tax Holiday Plea to FinMin

Startups want tax exemption to be extended to up to seven years

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New Delhi: To make Startup India more lucrative, the Ministry of Commerce & Industry has approached the Ministry of Finance with an industry proposal to widen the income tax exemption period from the current three years.

"I have been interacting with the startups and a lot of them are in touch with us directly. The decisions which have to be taken by finance we are forwarding it. Finance is also favourably inclined to help them out because this is a major initiative," Minister of State for Commerce & Industry Nirmala Sitharaman told ET.

Startups want the tax holiday to be extended to up to seven years because no company breaks even in three years. They say a longer-duration tax concession



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would not only encourage entrepreneurship but also enable companies to expand operations, generate employment and hire quality talent.

The government's Startup Action Plan of January 2016 had stated that with cash constraints and limited avenues of finances available to startups, a tax holiday in the initial years can be very helpful. The government earlier provided similar tax breaks to the software and information technology industry.

"Access to capital is the biggest requirement for a startup. The business starts to get viable only after five years. If we are trying to foster growth and create jobs through startups, then more time to absorb losses is a must,"

said Gaurav Kachru, founder of 5ideas Startup Superfuel, a seed fund that invests in startups.

Prime Minister Narendra Modi launched Startup India in January, offering incentives such as the three-year income tax holiday, which is subject to non-distribution of dividend, and capital gains tax exemption for investments in newly formed manufacturing micro, small and medium enterprises by individuals.

To benefit from these incentives, startups must first be declared eligible entities by the Inter-Ministerial Board of Certification, set up by the Department of Industrial Policy & Promotion to validate the innovative nature of the business.