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## Starting afresh

### **The Start-up India scheme addresses some entrepreneurial concerns about governmental support, funding, and a conducive business environment**

The policy decisions announced by Prime Minister Narendra Modi at the official launch of the Startup India scheme are promising, but it is incumbent upon the government to deliver on its promises. Modi's speech was received positively by many of the entrepreneurs who attended the event, but unless execution and impact keeps pace, the hype that has been generated can also recoil badly. Through Startup India, the government is attempting to tie entrepreneurs, investors, mentors and the government in a symbiotic relationship that will encourage research and risk-taking. In recent years, a number of successful Indian start-ups like Flipkart and Grofers, which attracted significant venture capital funding, have moved out of India to countries like Singapore citing the greater ease of doing business in these countries. Given this context, it is understandable why PM Modi went out on a limb and offered the kind of incentives that he did. For example, Singapore offers a corporate tax rate of 17-19 per cent compared to 30 per cent in India, alongside a number of other incentives like tax breaks on initial revenues and investments.

To ease credit availability, Modi has announced a Rs10,000 crore "Fund of Funds" with an initial corpus of Rs2,500 crore. Interestingly, this fund will be managed by professionals drawn from the private sector — from industry bodies, academia and other start-ups. Modi has also promised single-day registration facility for start-ups, through a mobile app, which will be a single window for all clearances and approvals. At the other end, start-ups wishing to make an exit can do so quickly, within 90 days, a significant decision that upholds the spirit of the recently tabled Insolvency and Bankruptcy Bill. The government has also offered an 80 per cent rebate on the cost of filing patents and has promised to fast-track the process. However, what enthused the participants at the Startup India event was the attempt to put in place a more friendly taxation regime and the self-certification of six labour and three environmental clearances.

But already some questions are being raised about the tax incentives. While an income tax holiday is being offered for start-ups for three years from registration, it has been pointed out that few start-up firms are able to accrue taxable income so quickly. Similarly, while much is being made of tax exemptions on investments in startups, when the investment exceeds the fair market value of their shares, it is forgotten that venture capitalists are already exempted from it. All the government has done is to extend it to incubators too, without offering the same facility to individual angel investors, who are also sizeable contributors for start-up funds, especially in a firm's initial years. It is surprising that despite the government's attempt to define a start-up and the ecosphere in which the start-up will operate, these facets were missed out. However, the tax exemption on capital gains if these are parked in the Fund of Funds will certainly boost credit availability.

There are an estimated 3,000 startups in India according to a NASSCOM survey conducted earlier this year. Already, many state governments have set up technology parks and "start-up villages" which offer office space, power, bandwidth and tax breaks at subsidised rates. There is no doubt that there is

considerable entrepreneurial energy that is being harnessed across India. While we are seeing big valuations in the e-commerce sector, including a number of unicorns — the term for companies whose valuation has exceeded \$1 billion — there are also worries about a e-commerce bubble, that is about to burst like the dotcom crash of 2000. To give the government due credit, it has consciously strived to send the message that Startup India is not solely about e-commerce or mobile applications, but also about innovations in manufacturing, agriculture, health care and education.

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