

Overview of Government Incentives For Startups In India Feb 2022

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Background

Startup India is a flagship initiative of the Government of India, intended to build a strong ecosystem that is conducive for the growth of startup businesses, to drive sustainable economic growth and generate large scale employment opportunities.

The Government through this initiative aims to empower startups to grow through innovation and design. To promote growth and help Indian economy, many benefits are being given to entrepreneurs establishing startups. The benefits ranges from financials supports to ease of compliance to income tax deductions and many more.

For availing various benefits under the Startup India scheme, an entity would be required to be recognized by Department for Promotion of Industry and Internal Trade (DPIIT) under the Ministry of Commerce and Industry as a startup.

Who is an eligible Startup entity?

- An entity shall be recognized as a startup upto 10 years from the date of incorporation/ registration.
- It should be incorporated as a Private Limited Company or registered Partnership Firm or an LLP in India.
- Turnover of such an entity for any of the financial years since incorporation/ registration should not have exceeded Rs 100 Crore.
- Entity should be working towards innovation, development or improvement of products or processes or services, or if it is a scalable business model with a high potential of employment generation or wealth creation.
- Such an entity should be a new entity and should not be established by splitting up or reconstruction of an existing business

GOVERNMENT INCENTIVES FOR STARTUPS IN INDIA

Benefit under Intellectual property rights

Fastrack application- The patent applications filed by start-ups will be fast-tracked for examination and Fast track mechanisms of startup patent applications will help startups to realised the value of their IPRs at the earliest possible

Patent protection – Patent protection and IP rights are a major concern for Indian startups. The government will make IPR procedure transparent for startups.

Facilitators to provide legal support and assistance in patent application– Facilitators shall provide assistance for startups in filing and disposal of patent applications related to patents, trademarks and design under relevant Acts. Government shall bear the entire fees of the facilitators for any number of patents, trademarks or designs that a startup may file.

80% rebate on filing patent applications by startups – To enable startups to reduce costs in their crucial formative years, startups shall be provided an 80% rebate in filing patents vis-a-vis other companies.

Benefit in financial support

Funds with a corpus of Rs 10,000 crore – To provide funding support for development and growth of innovation driven enterprises, Government has set up a fund with an initial corpus of Rs 2,500 crore and a total corpus of Rs 10,000 crore over a period of 4 years. Government will support startups through venture capital fund under this programme.

Credit Guarantee Fund – To start entrepreneurship through credit to innovators across all sections of society, credit guarantee mechanism through National Credit Guarantee Trust Company/SIDBI shall be rolled out with a budgetary corpus of Rs 500 Crore per year for the next four years.

Setting up of 35 new incubators in institutions – Funding support of 40% (subject to a maximum of Rs 10 crore) shall be provided by central government for establishment of new incubators in existing institutions for which 40% funding by the respective state government and 20% funding by the private sector has been committed.

Tax Benefits

No Income Tax for 3 Years - A start-up incorporated after 1st April 2016 and has obtained certificate from Inter-Ministerial Board of Certification, may apply for Tax Exemption under section 80 IAC of the Income tax act. such startup is eligible for tax holiday for any 3 consecutive financial years out of its first ten years since incorporation.

No Tax if Shares are issued at higher price : When a private limited company issues share at a price more than its fair Market Value, the difference is taxed as income of the company, however, startups are exempted from such taxability and shares of startup may be issued at a price higher than fair market value.

Exemption from Capital gain on reinvestment in Startups: Tax exemption is allowed, if capital gains arising from sale of residential properties is used to invest in startup.

Carried forward of losses after change in major shareholding : Section 79 restricts carried forward of losses if 51% shareholding of company does not remain the same, however, in case of startups such losses are allowed to be carried forward even if such shareholding falls below 51% subject to the condition that the shareholders of that period continue to hold the shares irrespective of the percentage of holding falling below 51%.

Deferment of tax on ESOPs: Tax payment has been deferred on shares allotted by the startups to their employees as ESOPs. The tax on ESOPs has been deferred now to such time when the employee is able to sell the exercised shares and pay tax from such proceeds. They have up to 48 months from the end of the assessment year when the ESOPs were exercised, to sell the shares.

Benefit in Various Compliances

Self-certification in labour laws – Self-certification of compliance with labour laws and environmental laws; Self-certification means start-ups are permitted to self-certify compliance with Six existing labour laws and Three environmental laws. This self-certification can be done online.

No Inspection till 5 Years – In case of the labour laws, no inspections will be conducted for a period of Five years. Startups may be inspected only on credible and verifiable complaints relating to violation and such complaint should be approved by at least one level senior to the concerned inspecting officer.

Faster exits for startups – To make it easier for startups to exit, provision for fast-tracking closure of businesses have been included in 'The insolvency and Bankruptcy Bill 2015'. Startups with simple debt structures may be wound up within a period of 90 days from making of an application for winding up on a fast-track basis.

Benefit in government tender

Exemption from experience and turnover criteria in tenders – With respect to public procurements, start-ups are exempted from having a prior experience or turnover subject to the meeting of quality and technical specification requirement. However, in cases where involving procurement of items related to public safety, health, etc., the procuring entity may prefer the vendor to have prior experience and may not allow these relaxations to start-ups.

Exemption from deposit EMD or security in tenders - Start-ups are also exempted from submitting Earnest Money Deposit or bid security while filing government tenders.

Other Schemes for startups

There are around 125 schemes split under various ministries/ departments of the government of India for the benefit of start-ups. These schemes are notified by ministries / departments time to time. Some of major schemes for benefits of start-ups include:

- Venture Capital Assistance Scheme of Ministry of Agriculture to assist entrepreneurs in the agricultural space in setting up agribusiness projects.
- Support for International Patent Protection in Electronics and Information Technology by the Ministry of Electronics and Information Technology. This scheme provides financial support to Micro, Small and Medium Enterprises ("MSME") and technology start-up units for international patent filing.
- Refinance scheme of Indian Renewable Energy Development Agency Limited under the support by the National Clean Energy Fund.
- Dairy Entrepreneurship Development Scheme by the department of Animal Husbandry, dairying and fisheries for generating self-employment opportunities in dairy sector covering activities such as enhancement of milk production procurement, preservation, transportation, processing and marketing of milk.
- Revamped Scheme of Fund for Regeneration of Traditional Industries by the Ministry of MSME.
- Multiplier Grants Scheme by the Department of Electronics and Information Technology to encourage collaborative R&D between industry and academics/ R&D institutions for development of products and packages.

- Biotechnology Industry Partnership Programme focused on creation of intellectual property, the ownership of which vests with the Indian industry / scientists.
- The Small Business Innovation Research Initiative scheme of Ministry of Science and Technology, under the Department of Biotechnology to boost public-private partnership efforts, to support new indigenous technologies relating to societal needs in the healthcare, food, agriculture and other sectors.
- Stand up India scheme by SIDBI to facilitate bank loans between INR 1 million to INR 10 million.
- Promoting Innovations in Individuals, Start-ups and MSMEs Department of Science & Industrial Research to support individual innovators which will enable them to achieve the agenda of inclusive development.