



Tax Exemption to Startups

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Various tax exemptions have been given to Startups in the recent past -

Following direct tax incentives were provided in Income-tax Act,1961 ('the Act') to promote Start-ups through Finance Act,2016:

- Introduction of new section 54EE in Income-tax Act, 1961 to exempt investment of long term capital gains by an investor in a fund notified by Central Government.
- Amendment of section 54GB to provide exemption of capital gains arising out of sale of residential property, on investing the same in shares of Start-up company.
- Introduction of new section 80-IAC to provide 100% deduction for three consecutive years out of five years, to profits of start-ups which are approved by Inter-Ministerial Board of Certification notified by DIPP.

To prevent incidence of "Angel Tax" on angel investors investing in approved start-ups, CBDT vide Notification No.45/2016 dated June 14,2016 notified that Angel investors funding to approved start-ups shall be exempt from incidence of tax under section 56(2)(viib).

Further, vide Finance Act,2017, following benefits have been provided to start-ups:

- Amendment of section 79 of the Act to provide that in the case of a company being an eligible start-up, loss shall be carried forward and set off against the income of the previous year, even if a change in shareholding has taken place in a previous year subject to all the shareholders of such company on the last day of the year or years in which the loss was incurred, continuing to hold shares on the last day of such previous year. The restriction of fifty one percent of shareholding of company to remain unchanged in order to carry forward and set-off the loss of earlier years has therefore been relaxed in the case of start-ups.
- Amendment to provide that deduction under section 80-IAC can be claimed by an eligible start-up for any three consecutive assessment years out of seven years beginning from the year in which such eligible start-up is incorporated as against three years out of five years provided by Finance Act, 2016.

The above exemptions would encourage seed-capital investment in Startups, facilitate their growth and meet the working capital requirements during the initial years of operation. Further, they would also promote investments into Start-ups by mobilizing the capital gains arising from sale of capital assets.

This information was given by the Commerce and Industry Minister Smt. Nirmala Sitharaman in a written reply in Rajya Sabha today.

MJPS

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