

STARTUP INDIA STANDUP INDIA



**What is
Startup INDIA
Standup INDIA ?**

A startup is an entity, private, partnership or limited liability partnership (LLP) firm that is headquartered in India, which was opened less than five years ago and have an annual turnover less than Rs25 crore. To be eligible for considering as startup, the entity should not be formed by splitting up or reconstruction and its turnover should not have crossed Rs25 crore during its existence.

Startup India is based on an action plan aimed at promoting bank financing for start-up ventures to boost entrepreneurship and encourage startups with jobs creation. The campaign was first announced by Prime Minister Modi in his 15 August 2015 address from the Red Fort.

To become eligible as a startup and get a green signal from the Inter-Ministerial Board, the entity should be the one which aims to develop and commercialise, a new product or service or process or a significantly improved existing product or service or process that will create or add value for customers or workflow. Products, services or process, which do not have potential for commercialization or is undifferentiated or have no or limited incremental value, will not be considered under the Scheme.

Advantages for startups regarding registration:

The government is launching a mobile app on 1 April 2016 and a portal that will allow companies to register in a day. In addition, there would be a single point of contact for Start-up India hub. In addition, there will be single window clearance for clearances, approvals, and registrations.

Towards these efforts, the Government will introduce a Mobile App to provide on-the-go accessibility for:

- ❖ Registering Startups with Ministry of Corporate Affairs and Registrar of Firms
- ❖ Tracking the status of the registration application. A digital version of the final registration certificate shall be made available for downloading through the Mobile App
- ❖ Filing for compliances and obtaining information on various clearances/ approvals/ registrations required
- ❖ Collaborating with various Startup ecosystem partners (venture funds, incubators, academia, mentors etc.)
- ❖ Applying for various schemes being undertaken under the Startup India Action Plan.

Benefits provided by Government under the provision on Income Tax:

With a view to stimulate the development of Startups in India and provide them a competitive platform, it is imperative that the profits of Startup initiatives are exempted from income-tax for a period of 3 years. This fiscal exemption shall facilitate growth of business and meet the working capital requirements during the initial years of operations. The exemption shall be available subject to non-distribution of dividend by the Startup.

Tax Exemption on Capital Gain :

Government wants to promote investments into Startups by mobilizing the capital gains arising from sale of capital assets. With this objective, exemption shall be given to persons who have capital gains during the year, if they have invested such capital gains in the Fund of Funds recognized by the Government

Legal Support and Fast-tracking Patent Examination at Lower Costs:

A fast-track system for patent examination at lower costs is being conceptualized by the central government. The system will promote awareness and adoption of the Intellectual Property Rights (IPRs) by the start-up foundations.

The scheme for Startup Intellectual Property Protection (SIPP) shall facilitate filing of Patents, Trademarks and Designs by innovative Startups. Various measures being taken in this regard include:

- ❖ Fast-tracking of Startup patent application
- ❖ Panel of facilitators to assist in filing of IP applications.
- ❖ The Central Government shall bear the entire fees of the facilitators for any number of patents, trademarks or designs that a Startup may file, and the Startups shall bear the cost of only the statutory fees payable.
- ❖ Rebate on filing of application. Startups shall be provided an 80% rebate in filing of patents vis-a-vis other companies.

The scheme is being launched initially on a pilot basis for 1 year; based on the experience gained, further steps shall be taken.

Harnessing Private Sector Expertise for Incubator Setup:

To ensure professional management of Government sponsored / funded incubators, Government will create a policy and framework for setting-up of incubators across the country in public private partnership.

Government shall encourage setting up of;

- ❖ 35 new incubators in existing institutions. Funding support of 40% (subject to a maximum of INR 10 crore) shall be provided by Central Government for establishment of new incubators for which 40% funding by the respective State Government and 20% funding by the private sector has been committed. The incubator shall be managed and operated by the private sector.
- ❖ 35 new private sector incubators. A grant of 50% (subject to a maximum of INR 10 crore) shall be provided by Central Government for incubators established by private sector in existing institutions. The incubator shall be managed and operated by the private sector.
- ❖ The funding for setting up of the incubators shall be provided by NITI Aayog as part of atal Innovation Mission. Participating departments and agencies for setting up of new incubators shall be Department of Science and Technology, Department of Biotechnology, Department of Electronics and Information Technology, Ministry of Micro, Small and Medium Enterprises, Department of Higher Education, Department of Industrial Policy and Promotion and NITI Aayog.



Annual Incubator Grand Challenge:

The Government is proposing to make forward looking investments towards building world class incubators. In its first phase, the aim is to establish 10 such incubators. To enable this, GoI shall identify and select 10 incubators who have the potential to become world class. These incubators would be given INR 10 crore each as financial assistance which may be used for ramping up the quality of service offerings.

The incubators shall also become reference models for other incubators aspiring to offer best-in-class services. Video interviews of these incubators would be showcased on the Startup India portal. An “Incubator Grand Challenge” exercise shall be carried out for identification of these incubators.

Setting up of 7 New Research Parks:

The Government shall set up 7 new Research Parks in institutes indicated below with an initial investment of INR 100 crore each. The Research Parks shall be modeled based on the Research Park setup at IIT Madras, IIT Guwahati, IIT Hyderabad, IIT Kanpur, IIT Kharagpur, IISc Bangalore, IIT Gandhi nagar and IIT Delhi.

Organizing Startup Fests for Showcasing Innovation and Providing a Collaboration Platform:

To bolster the Startup ecosystem in India, the Government is proposing to introduce Startup fests at national and international stages. These fests would provide a platform to Startups in India to showcase their ideas and work with a larger audience comprising of potential investors, mentors and fellow Startups.

As part of “Make in India” initiative, Government proposes to:

- ❖ Hold one fest at the national level annually to enable all the stakeholders of Startup ecosystem to come together on one platform.
- ❖ Hold one fest at the international level annually in an international city known for its Startup ecosystem.

The fests shall have activities such as sessions to connect with investors, mentors, incubators and Startups, showcasing innovations, exhibitions and product launches, pitches by Startups, mentoring sessions, curated Startup walks, talks by disruptive innovators, competitions such as Hackathon, Makerspace, etc., announcements of rewards and recognitions, panels and conferences with industry leaders, etc.

RISE OF INDIA AS A STARTUP NATION

Credit Guarantee Fund for Startups:

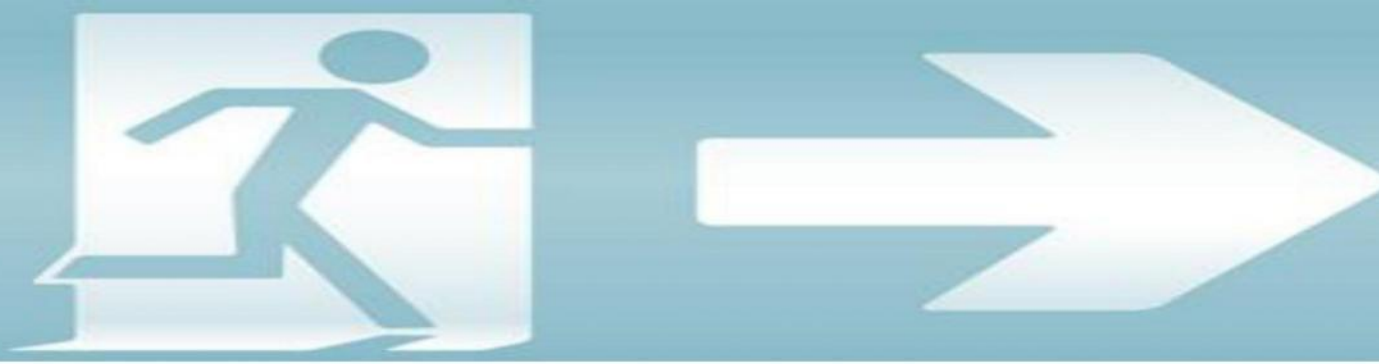
In order to overcome traditional Indian stigma associated with failure of Startup enterprises in general and to encourage experimentation among Startup entrepreneurs through disruptive business models, credit guarantee comfort would help flow of Venture Debt from the formal Banking System. Debt funding to Startups is also perceived as high risk area and to encourage Banks and other Lenders to provide Venture Debts to Startups, Credit guarantee mechanism through National Credit Guarantee Trust Company (NCGTC)/ SIDBI is being envisaged with a budgetary Corpus of INR 500 crore per year for the next four years.

Relaxed Norms of Public Procurement for Startups

Typically, whenever a tender is floated by a Government entity or by a PSU, very often the eligibility condition specifies either “prior experience” or “prior turnover”. Such a stipulation prohibits/ impedes Startups from participating in such tenders.

At present, effective April 1, 2015 Central Government, State Government and PSUs have to mandatorily procure at least 20% from the Micro Small and Medium Enterprise (MSME).

In order to promote Startups, Government shall exempt Startups (in the manufacturing sector) from the criteria of “prior experience/ turnover” without any relaxation in quality standards or technical parameters. The Startups will also have to demonstrate requisite capability to execute the project as per the requirements and should have their own manufacturing facility in India.



Faster Exit for Startups

In the event of a business failure, it is critical to reallocate capital and resources to more productive avenues and accordingly a swift and simple process has been proposed for Startups to wind-up operations. This will promote entrepreneurs to experiment with new and innovative ideas, without having the fear of facing a complex and long-drawn exit process where their capital remain interminably stuck.

The Insolvency and Bankruptcy Bill 2015 (“IBB”), tabled in the Lok Sabha in December 2015 has provisions for the fast track and / or voluntary closure of businesses.

In terms of the IBB, Startups with simple debt structures or those meeting such criteria as may be specified may be wound up within a period of 90 days from making of an application for winding up on a fast track basis. In such instances, an insolvency professional shall be appointed for the Startup, who shall be in charge of the company (the promoters and management shall no longer run the company) for liquidating its assets and paying its creditors within six months of such appointment. On appointment of the insolvency professional, the liquidator shall be responsible for the swift closure of the business, sale of assets and repayment of creditors in accordance with the distribution waterfall set out in the IBB. This process will respect the concept of limited liability.



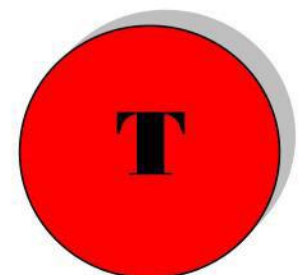
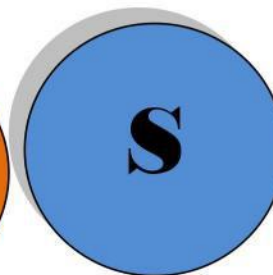
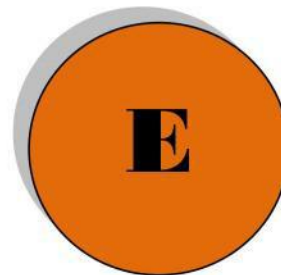
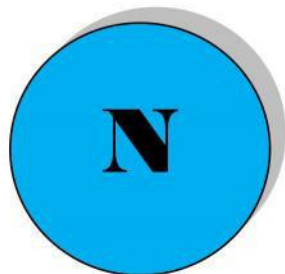
Providing Funding Support through a Fund of Funds with a Corpus of INR 10,000 crore

One of key challenges faced by Startups in India has been access to finance. Often Startups, due to lack of collaterals or existing cash flows, fail to justify the loans. Besides, the high risk nature of Startups wherein a significant percentage fail to take-off, hampers their investment attractiveness.

In order to provide funding support to Startups, Government will set up a fund with an initial corpus of INR 2,500 crore and a total corpus of INR 10,000 crore over a period 4 years (i.e. INR 2,500 crore per year) . The Fund will be in the nature of Fund of Funds, which means that it will not invest directly into Startups, but shall participate in the capital of SEBI registered Venture Funds.

Key features of the Fund of Funds are highlighted below:

- ❖ The Fund of Funds shall be managed by a Board with private professionals drawn from industry bodies, academia, and successful Startups.
- ❖ Life Insurance Corporation (LIC) shall be a co-investor in the Fund of Funds.
- ❖ The Fund of Funds shall contribute to a maximum of 50% of the stated daughter fund size. In order to be able to receive the contribution, the daughter fund should have already raised the balance 50% or more of the stated fund size as the case maybe. The Fund of Funds shall have representation on the governance structure/ board of the venture fund based on the contribution made.
- ❖ The Fund shall ensure support to a broad mix of sectors such as manufacturing, agriculture, health, education, etc.



Tax Exemption on Investments above Fair Market Value

Under The Income Tax Act, 1961, where a Startup (company) receives any consideration for issue of shares which exceeds the Fair Market Value (FMV) of such shares, such excess consideration is taxable in the hands of recipient as Income from Other Sources.

In the context of Startups, where the idea is at a conceptualization or development stage, it is often difficult to determine the FMV of such shares. In majority of the cases, FMV is also significantly lower than the value at which the capital investment is made.

This results into the tax being levied under section 56(2) (viib). Currently, investment by venture capital funds in Startups is exempted from operations of this provision. The same shall be extended to investment made by incubators in the Startups.

Annual Incubator Grand Challenge

For a new idea to become a successful commercial venture, adequate support and mentoring at various stages of the business lifecycle is required. Incubators play an important role in identifying early stage Startups and supporting them across various phases of their lifecycle. In order to build an effective Startup ecosystem, it is imperative that world class incubators, adopting leading industry practices, are setup in the country.

The Government is proposing to make forward looking investments towards building world class incubators. In its first phase, the aim is to establish 10 such incubators. To enable this, GoI shall identify and select 10 incubators who have the potential to become world class. These incubators would be given INR 10 crore each as financial assistance which may be used for ramping up the quality of service offerings. The incubators shall also become reference models for other incubators aspiring to offer Best-in-class services. Video interviews of these incubators would be showcased on the Startup India portal.

An “Incubator Grand Challenge” exercise shall be carried out for identification of these incubators. The exercise shall entail:

- ❖ Open invitation of applications from incubators
- ❖ Screening and evaluation based on pre-defined Key Performance Indicators (KPIs)

The Incubator Grand Challenge shall be an annual exercise.

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