Angel tax

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Angel tax is a **kind of direct tax that the receiver** (startup) of the fund from an angel investor has to pay.

It was introduced in the **2012 Budget.**

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 the recipient as income from other sources.

It is counted as income to the company and is taxed. Angel tax was introduced in 2012, with the purpose of keeping money laundering in check.

Angel tax is **charged at the maximum marginal rate of 30%**. The government has prescribed a specific method of calculating FMV.

There is no definitive or objective way to measure the **'fair market value'** of a startup. Investors pay a premium for the idea and the business potential at the angel funding stage.