Angel Tax

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Manifest Pedagogy

Start Ups are the backbone for economic system today with deepening use of tech tools and new age inventions combined with industrial revolution 4.0. UPSC might focus on key terms such as angel funds in prelims whereas the success of start up Initiatives and ease of doing business could be in focus fr Mains.

In news

Government eases Angel tax for Startups

Placing it in the syllabus

LPG Reforms

Static dimensions

1. Start Up India
2. Angel fund, venture capital fund etc.
3. Series A and Series B..
4. Ease of Doing Business

Current dimensions

1. DIPP And IT department notification
2. Angel Tax
3. Valuation concerns

Content

Angel funds

Angel funds refers to a money pool created by high networth individuals or companies (generally called as angel investors), for investing in business start ups. They are a sub-category of venture capital funds with strict focus on startups, while venture capital funds generally invest at a later stage of development of the investee company.

Venture funds

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Private equity funds

A Private Equity Fund, also known as Private Equity, is equity capital which comprises of investors who invest directly in private companies. This equity capital is not listed on the stock exchange and usually follows a general investment criteria of investing in varied industries or follow a industry specific criteria.

Series A, B, C funding

- **Series A** round of financing is the first round of financing that a startup receives from a venture capital firm i.e. the first time when company ownership is offered to external investors. This is generally done by allotting preferred stock. Series A round of financing is generally done when a company is generating some revenue, though it might not be net profit. The risk involved is at the highest in this round of funding.
- **Series B:** At this stage, the product/ service is already being sold in the market. Series B round of

funding is required by the company to scale up, to face competitors and have a market share. The goal of this round of funding is not only to break even but to also have the net profit. At this stage, investment risk is lower and the amount of funding is more than Series A round of funding.

- **Series C:** venture capital firm goes for this round of funding when the company has proved its mettle and is a success in the market. The company goes for Series C round of funding when it looks for greater market share, acquisitions, or to develop more products and services. Series C round of funding can also take place to prepare the company for an acquisition. It is the last stage in a company's growth cycle before an Initial Public offer (IPO). Valuation of the company at this juncture is done on the basis of hard data points. This round of funding is more of an exit strategy of the venture capital firm.

Angel Tax

Angel tax is a term used to refer to the income tax payable on capital raised by unlisted companies via issue of shares where the share price is seen in excess of the fair market value of the shares sold. The excess realisation is treated as income and taxed accordingly.

Valuation, definition of Start Up and Rules for Start Up

As per the revised notification published in May 2017, an **entity shall be considered as a Startup:**

- If it is incorporated as a private limited company (as defined in the Companies Act, 2013) or registered as a partnership firm (registered under section 59 of the Partnership Act, 1932) or a limited liability partnership (under the Limited Liability Partnership Act, 2008) in India; and
- **Up to seven years** from the date of its incorporation/

registration; however, in the case of Startups in the biotechnology sector, the period shall be up to ten years from the date of its incorporation/ registration; and

- If its turnover for any of the financial years since incorporation/ registration has not exceeded Rupees 25 crores; and
- If it is 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. Provided that any such entity formed by splitting up or reconstruction of a business already in existence shall not be considered a 'Startup'.

A startup is a newly established business, usually small, started by 1 or a group of individuals. What differentiates it from other new businesses is that a startup offers a new product or service that is not being given elsewhere in the same way. The keyword is **innovation**. The business either develops a new product/ service or redevelops a current product/service into something better.

Startup India scheme

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.

Benefits under the Scheme

1. **Self-certification** and compliance under 9 environmental & labour laws
2. **IPR Support:** Government to bear facilitation cost & 50% rebate on trademark filing

3. **INR 10,000 Crore Fund:** Funds for investment into startups through Alternate Investment Funds
4. **Public procurement norms:** Central Ministries/Departments to relax condition of prior turnover & prior experience for Startups
5. **Startup patent application:** Fast track & up to 80% rebate in filing patents
6. **Public procurement norms:** Exemption from requirement of Earnest Money Deposit in government tenders
7. **Tax Exemptions**:Income Tax exemption for a period of 3 consecutive years.
8. **Tax Exemptions:** On capital gains & on Investments above Fair Market Value

Rules for Angel tax (New)

- Under the new rules, a startup will first need to be recognized by the department for Promotion of Industries and Internal Trade (DPIIT) to be eligible for concessions for shares that have been issued or are proposed to be issued. The startups will then have to seek tax breaks, for which DPIIT will approach the I-T department.
- The earlier requirement of startups to submit a report from a merchant banker specifying the fair market value of shares has also been done away with.
- At the same time, cases where the tax department has issued an assessment will not be eligible for tax breaks.
- Only startups with paid-up capital, share premium upto RS 25 crore will get relief. (Rs. 50 Crore proposed)
- DPIIT acrediation will be required for relief from the tax.
- Startups, whose aggregate amount of paid up share capital and share premium does not exceed Rs 10 crore after the proposed issue of shares, are eligible for angel tax exemption.

- The relief will not cover tax notices issued under other provisions
- Unexplained fund receipts will continue to be taxed as income.