Parliamentary Committee Report on Startups

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In News: The Parliamentary Standing Committee on Finance tabled a report related to startups in Parliament.

Key Recommendations

- Indian start-ups need to reduce their dependence on China and the USA, so that India becomes self-reliant by having several large domestic growth funds powered by domestic capital.E.g Small Industries Development Bank of India (SIDBI) Fund-of-Funds vehicle should be expanded and fully operationalised to play an investment role.
- A fund-of-funds also known as a multi-manager investment—is a pooled investment fund that invests in other types of funds.
- Foreign development finance institutions may also be encouraged to participate with local asset management companies to set up fund-of-funds structures.
- The companies and Limited Liability Partnerships (LLPs) should be allowed to invest in start-ups without being classified as Non-banking Financial Companies (NBFCs) by the Reserve Bank of India (RBI) to expand capital sources for start-ups.
- Abolition of Long Term Capital Gains (LTCG) tax on Collective Investment Vehicles (CIVs) for at least the next two years to encourage investment in start-ups and to drive a sharp post-pandemic revival.
  - At present, LTCG earned by foreign investors in private companies attracts taxation at a rate of 10%, in comparison to the domestic venture capital investments which are taxed at 20% (for LTCG) with an enhanced surcharge of 37%.

- After a two-year period, the Securities Transaction Tax (STT) may be applied to CIVs so that revenue neutrality is maintained.
- A CIV is any entity that allows investors to pool their money and invest the pooled funds, rather than buying securities directly as individuals. It is usually managed by a fund management company which is paid a fee for doing so.
- Examples of CIV: angel funds, alternate investment funds and investment LLP.

What are Parliamentary Committees?

- The Lok Sabha website describes a parliamentary committee as a "committee which is appointed or elected by the House or nominated by the Speaker and which works under the direction of the Speaker and presents its report to the House or to the Speaker and the Secretariat".

- **Different types of committees:**
  - **'Standing Committees:** Their existence is uninterrupted and usually reconstituted on an annual basis.
  - They are further divided into **financial committees** and departmentally-related standing committees **(DRSCs)**.The three financial committees are the Public Accounts Committee, the Estimates Committee and the Committee on Public Undertakings.
  - **'Select' committees** formed for a specific purpose, for instance, to deliberate on a particular bill. Once the Bill is disposed of, that select committee ceases to exist.

Composition of Departmentally-related standing committees (DRSCs)

- Until the 13th Lok Sabha, each DRSC comprised 45 members – 30 nominated from Lok Sabha and 15 from the Rajya

Sabha.

- However, with their restructuring in July 2004, each DRSC now has 31 members – 21 from Lok Sabha and 10 from Rajya Sabha, to be nominated by Lok Sabha Speaker and Rajya Sabha chairman, respectively.

They are appointed for a maximum period of one year and the committees are reconstituted every year cutting across party lines.

Composition of Financial Committees

- The estimates committee has 30 members, all from the Lok Sabha.
- Both the public accounts committee and the committee on public undertakings have 22 members each – 15 elected from the Lok Sabha and seven from the Rajya Sabha.

- **Powers**
  - Parliamentary committees draw their authority from Article 105 (on privileges of Parliament members) and Article 118 (on Parliament's authority to make rules for regulating its procedure and conduct of business)
- **Significance**
  - Committee reports are usually exhaustive and provide authentic information on matters related to governance.
  - Bills that are referred to committees are returned to the House with significant value addition.
  - However, Parliament is not bound by the recommendations of committees.

Startup India Scheme

- It is a flagship initiative of the Government of India, intended to catalyse startup culture and build a strong and inclusive ecosystem for innovation and entrepreneurship in India.

- Since the launch of the initiative in 2016, Startup India has rolled out several programs with the objective of supporting entrepreneurs, and transforming India into a country of job creators instead of job seekers.
- A startup is an enterprise that is initiated by its founders around an idea or a problem with a potential for significant business opportunity and impact.

Small Industries Development Bank of India

- Small Industries Development Bank of India (SIDBI) was set up in 1990. It is a statutory body established under an Act of Parliament.
- It acts as the principal financial institution for promotion, financing and development of the Micro, Small and Medium Enterprise (MSME) sector as well as for coordination of functions of institutions engaged in similar activities