Standing committee report on financing startup ecosystem

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In news

Standing Committee on Finance headed by Jayant sinha submitted report on financing the startup ecosystem

What are the recommendations of the committee?

- The Committee recommended **changes in taxation and other regulation to broaden avenues for investment in startups** and improve domestic investor participation
- **It recommended that tax on long-term capital gains should be abolished for two years on investments in startups** made through collective investment vehicles (CIVs).
- It states that after the two-year period, the Securities Transaction Tax (STT) may be applied to CIVs (instead of long-term capital gains tax) to ensure revenue neutrality for the government.
- **STT is a tax imposed on purchase and sale of securities and is currently applicable for listed securities**.
- CIVs are entities (such as angel funds) that pool funds for investment.
- **Asset management services not be subjected to GST:** It was recommended that management services to foreign investors, whether pooled onshore (AIFs) or offshore (non-AIFs) should be considered as export so they can claim GST exemption.
- **Mobilisation of domestic institutional funds:** The Committee gave recommendations to channelise large pools of domestic capital available with pension funds, banks and insurance companies into alternate asset classes (such as AIFs, private equity, venture capital funds).

These include:

  - pension funds should be allowed to invest in unlisted AIFs and the requirement of minimum AIF corpus size of Rs 100 crore be removed
  - major banks should be allowed to float fund-of-funds (for investment in funds that invest in startups), and
  - insurance companies should be allowed to invest directly in VC/PE funds and a higher exposure limit should be permitted for the same. Insurance companies are allowed to hold between 3% to 5% of their investment funds in AIFs

- In order to enable AIFs to access a permanent source of capital, **it was recommended that they should be allowed to list on capital markets.**
- The standing committee recommended that foreign venture capital investors (FVCI) be allowed to invest in all the sectors where foreign direct investment (FDI) is allowed.
- The standing committee noted that companies may be classified as non-banking finance companies (NBFCs) if more than 50% of their assets or revenues are derived from startups. It was recommended that **companies should be allowed to invest in startups without being classified as NBFCs.**
- The Finance Act, 2020, excludes from calculation of total income, income from investment in the infrastructure sector, made before March 31, 2024, held for at least three years. It was recommended that this exclusion be allowed for long-term capital in all sectors.