



Ministry of Commerce & Industry

Tax Exemption to Start-Ups

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Startups receiving investments from Ventures Capital Fund are exempt from taxation as per provision of Section 56, (2) (vii b) of Income Tax Act 1961 (Act). Angel Fund is sub category of Ventures Capital Fund under Category-I Alternative Investment Fund (AIF), hence, eligible for the same exemption.

Several round of discussions have been held by Department for Promotion of Industry & Internal Trade (DPIIT) with the Startup ecosystem to address their concerns. Consequently, a notification number G.S.R. 127(E), dated 19th February, 2019 was issued by DPIIT. Central Board of Direct Taxes (CBDT) vide their notification number S.O. 1131(E) dated 5th March 2019 has notified that provisions of Section 56 (2) vii(b) of Act shall not apply to consideration received by a company for issue of shares that exceeds the face value of such shares, if the said consideration has been received from a person, being a resident, by a company which fulfils the conditions specified in notification number G.S.R. 127(E), dated 19th February, 2019 of DPIIT.

Department of Revenue had earlier issued an advisory on 24th December, 2018 based on representations received from various startup companies that no coercive measures to recover the outstanding amount should be taken for startup companies, if additions have been made by Assessing Officer under Section 56(2) vii(b) of Income Tax Act, 1961 after modifying /rejecting evaluation so furnished under Rule 11 UA (2) of Income Tax Rule, 1962.

The provisions of the notification number G.S.R. 127(E) dated 19th February 2019 have been fully implemented, easing norms for providing tax relief to Startups on angel investments.

DPIIT accepts applications and declarations from Startups applying for Angel Tax Exemption and on the receipt of the same DPIIT forwards these applications to CBDT. As on 21st June, 2019 a total of 944 applications for Angel Tax Exemption have been received. Thirty-nine applications have been found to be incomplete, and 203 applications were repeat or modified applications. CBDT has exempted 702 startups under this provision.

This information was given by the Minister of Commerce and Industry, PiyushGoyal, in a written reply in the Lok Sabha today.

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