

ANGEL TAX RELIEF BRINGS MUCH NEEDED RESPITE TO START-UPS

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Public Finance, Taxation & Black Money incl. Government Budgeting

Finance Minister Nirmala Sitharaman has provided the much-needed relief for the start-up community by announcing that angel tax will not be applicable on entities registered with the Department for Promotion of Industry and Internal Trade (DPIIT).

While announcing a slew of measures to boost the economy, Ms. Sitharaman said while Sec 56(2) (viib) of the Income Tax Act — under which the tax is levied — would stay, it would not be applicable on start-ups that register with the DPIIT.

Industry players were unanimous in welcoming the move as the angel tax was looked upon as a major hindrance for early stage start-ups that were looking to attract funding from angel investors and other entities.

“It is immensely delightful for funded and bootstrapped MSMEs (micro, small and medium enterprises) that the government has considered to waive off 'angel tax' and simplify the flow of risk capital for young companies, which will allow early-stage ventures to raise seed capital,” said Srikanth Iyer, CEO and founder, HomeLane.com.

Ease of doing business

“Furthermore, their decision to fast-track GST refunds in 30 days and CBDT’s move towards setting up a dedicated cell to address tax problems will further ease business environment,” he added.

Angel tax is imposed on the excess share capital raised by an unlisted firm, over and above the fair market value of its shares.

This tax usually impacts start-ups and the angel investments they attract.

Genuine cases

While aimed at curbing money-laundering, the angel tax also resulted in a large number of genuine start-ups receiving notices from the tax department.

“Acknowledging the widespread criticism faced by the tax authorities for their enthusiasm to tax start-ups, the government has finally decided to put a full stop to it,” said S.R. Patnaik, Partner & Head – Taxation, Cyril Amarchand Mangaldas.

“Today’s decision means once you are registered as a start-up with the DPIIT, you will not be bothered by the tax authorities,” Mr. Patnaik added.

Fast-tracking GST refunds in 30 days and a dedicated cell to address tax problems will further ease the business environment

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