Source : www.thehindu.com Date : 2019-02-05

CENTRE MAY RELAX ANGEL TAX NORMS FOR START-UPS, SETS UP PANEL

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Industry & Services Sector incl. MSMEs and PSUs

Fact check:The Centre is concerned about differentiating genuine start-ups from shell companies.gettyimages/istock

The government on Monday decided to set up a five-member working committee to look into the angel tax issue and come up with guidelines in one week. It also agreed to implement some key changes requested by start-ups regarding the issue.

The ‘angel tax’, as it is commonly called, is a tax on the excess capital raised by an unlisted company through the issue of shares over and above the fair market value of those shares. This excess capital is treated as income and taxed accordingly. This tax most commonly affects start-ups and the angel investors who back them. The decisions were taken during a meeting between officials of the Department for Promotion of Industry and Internal Trade (DPIIT), including its Secretary Ramesh Abhishek, officials of the Central Board of Direct Taxes (CBDT), including Member Akhilesh Ranjan and Joint Secretary Rajesh Bhoot, and representatives of the start-up community.

According to a January 16 notification, start-ups whose aggregate amount of paid-up share capital and share premium after the proposed issue of share does not exceed Rs. 10 crore are eligible for exemption from the tax.

The Hindu has learnt that during the meeting, officials representing the government agreed to raise this limit to Rs. 25 crore. They also agreed to amend the definition of a start-up to include companies that have been in operation for up to 10 years rather than the previous limit of seven years. On the investor side, the notification had said that the angel investor should have filed income tax returns of at least Rs. 50 lakh for the year preceding the year in which the investment was made and have a net worth of Rs. 2 crore. This, according to a source who attended the meeting, would be modified to be Rs. 25 lakh and Rs. 1 crore, respectively.

‘Can’t scrap tax’

“The ask was for scrapping the angel tax,” the head of a start-up who attended the meeting told *The Hindu* . “To that, the response from Akhilesh Ranjan was that it could not be scrapped as money laundering was a major problem. There was a network of 200 shell companies and they have been under control since 2012, so it cannot be scrapped.” “However, during the meeting they agreed to three of our requests, which had to do with the size of the start-up, the duration of its operation, and the income of the angel investor,” the company official added.

These agreements could still result in an ‘inspector-raj’, where start-ups would have to apply to the DPIIT and the CBDT each time they find an investor, Sachin Taparia, founder and chairman of LocalCircles said.

The government, for its part, was concerned about how to differentiate genuine start-ups from companies set up for money-laundering purposes. “Money-laundering companies will fail the time-test,” Mr. Taparia, who was also at the meeting, said.

“The government should ask for documents from each of the 15,000-16,000 start-ups registered with it, including two years’ monthly expenses, employee details, employee details. This will immediately weed out the money laundering companies as they will not be able to provide these details.”

In addition, the start-ups made the point that this database of genuine companies could be shared with the CBDT, thereby allowing it to exempt these companies from angel tax scrutiny in the first stage itself.

“The panel formed is to look into how to go ahead with this,” Mr. Taparia added. “The CBDT was very open to this idea. They have decided to issue a fresh notification with all the rule changes in a week.”

The govt. should ask start-ups for documents to weed out money laundering firmsSachin Taparia,founder, LocalCircles

END