

CENTRE TO LIST STARTUPS FOR ANGEL TAX EXEMPTION

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

This tax usually impacts startups and the angel investments they attract. While aimed at curbing money-laundering, the angel tax has also resulted in a large number of genuine startups receiving notices from the IT Department.

Startups would have to furnish three types of documents in order to be registered with the government: (i) audited financials for the previous year, (ii) IT returns for the previous year, and (iii) a self-certified declaration. The declaration is to certify that the firm does not have ownership or investments nor plans to deploy the angel investment in real estate holdings of any kind and assets, including premium cars of value above Rs. 10 lakh, gold and art.

The declaration has to also acknowledge that if the company possesses any of these items, then the exemption granted from Section 56(2)(viib) would be revoked with retrospective effect. Once these documents are furnished, the DPIIT would have to validate them, and then submit the name and PAN of all these companies to the CBDT. The CBDT would then set up a mechanism where such recognised startups do not get notices under Section 56(2)(viib).

“The DPIIT and the CBDT have agreed to these and the notification will be issued shortly,” the member said.

The DPIIT was earlier considering defining a startup eligible for exemption from the angel tax if the aggregate amount of paid-up share capital and share premium after the proposed issue of shares did not exceed Rs. 10 crore. This has now been raised to Rs. 25 crore.

Existing cases

The CBDT, however, said that it could not halt the proceedings in cases where the startups had already been sent a notice by the Income Tax department.

“Regarding the cases where notices have already been sent, the government officials are saying they are going to instruct the relevant authority to close the case as soon as possible, and also take into consideration the fact that the company is registered as a startup with the government,” the committee member said.

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