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HALF-MEASURES: NEW ANGEL TAX RULES FOR START-UPS

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

After the uproar among start-up investors in the last few weeks, the Centre on Tuesday decided to **ease the conditions under which investments in start-ups will be taxed by the government**. According to the new rules, investments up to 25 crore in companies that are less than 10 years old and with a total turnover of less than 100 crore will be exempted from the new angel tax. Further, investments made by listed companies with a net worth of at least 100 crore or a total turnover of at least 250 crore will be fully exempt from the tax; so will investments made by non-resident Indians. When it was first proposed by the Centre in 2012, the angel tax was justified as an emergency measure to prevent the laundering of illegal wealth by means of investments in the shares of unlisted private companies at extraordinary valuations. But the adverse effect that it has had on investor confidence has forced the government to ease the stringent rules. The easing of the outdated angel tax rules will definitely make life easier for start-ups, which are in desperate need for capital to fund their growth and other business requirements. Further, since the new rules are set to be applied retrospectively, many young companies that have received notices from the Income Tax Department in the last few years will be relieved by the latest tweak in the rules.

There are, however, a few other issues with the new rules that could still cause unnecessary headaches to young start-ups. Companies wishing to make use of the latest exemption, for instance, will first need to be registered with the government as start-ups. To be classified as one, a company needs to attest to conditions such as that it has not invested in any land unrelated to the business, vehicles worth over 10 lakh, or jewellery. These requirements, while probably aimed to prevent money- laundering, can lead to considerable bureaucratic delays and rent-seeking. Also, the new rules for the angel tax, though less stringent than before, can cause the same old problem of arbitrary tax demands for companies that do not fall under the defined category of start-ups. The taxes to be paid are still supposed to be calculated by the authorities based on how much the sale price of a company's unlisted share exceeds its fair market value. It is impossible to know the market value, let alone the fair market value, of shares that are not openly traded in the marketplace. So tax authorities with ulterior motives will still possess enough leeway to harass start-ups with unreasonable tax demands. Unless the government can address the arbitrary nature of the angel tax, the damage to investor confidence may remain.

The Meghalaya government must urgently ensure that all illegal mines are shut down

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