

Government Schemes For Startups - Benefits & Policies

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Government Schemes For Startups

Some companies fail before becoming scalable corporations due to the severe competition they face as entrants to the industry. Protection, support and guidance is critical at this stage, especially for startups in the marketplace. The Startup India Action Plan, which was 2015 initiative announced by the government to provide this very support, defines a startup as “an entity, incorporated or registered in India, not before five years, with annual turnover not exceeding INR 25 crore in any preceding financial year, working towards innovation, development, deployment or commercialization of new products, processes or services driven by technology or intellectual property.”

If a startup is approved by the Ministry of Commerce’s Department of Promotion for Industry and Internal Trade (DPIIT) under the Startup India Action Plan, it is eligible for several benefits such as:

- Incubation Centres
- Government Funding
- Self-Certification
- Benefits Under The Companies Act
- Tax Benefits
- Intellectual Property Rights (IPR) Benefits
- Fast-track Voluntary Closure
- Easy Public Procurement Norms

Here’s a quick look at these benefits.

Incubation Centres

Incubation centers provide startups with space, administrative support, legal compliance guidance, teaching, and mentorship. For example, the National Science & Technology Entrepreneurship Development Board (NSTEDB) under the Department of Science and Technology runs Technology Business Incubators (TBIs) for embryonic startups to operate in. These incubators play an important role in assisting technology-driven and knowledge-based startups, which increases their survival rate.

Government Funding

The government has offered funds for startups in collaboration with the Small Industries Development Bank of India (SIDBI) for managing a fund of INR 10,000 crores vis-à-vis the applicability of operational guidelines for

startups. The Ministry of Micro, Small, and Medium Enterprises launched the Credit Guarantee Trust for Micro and Small Enterprises project. This project offers loans of up to one crore rupees with no collateral or security required. This fund would offer credit guarantee protection to banks and lending institutions, as lending to startups is considered riskier.

Self-Certification

Startups are permitted to self-certify their compliance, provided they do so with selected labour and environmental rules under the Startup India initiative. Such benefits are provided to startups to assure operational performance and allow them to focus on their core business while incurring relatively modest compliance costs. Additionally, startups are immune from labour law compliance inspections for 3 years.

Benefits Under The Companies Act

A startup is exempt from the deposit acceptance requirements of Section 73 of the Companies Act for five years after the date of formation. A new private business is not required to adhere to the maximum limit in terms of deposits to be taken from members for five years from the date of formation.

The Ministry of Corporate Affairs increased the period of exemptions from other regulatory filings to 10 years. Startups would be permitted to offer up to 50% of their paid-in capital as sweat equity. During this period, they would be exempt from the restriction that prevents startups from raising deposits above 100% of their paid-in share capital.

Tax Benefits

Startups are excluded from filing tax returns for the first 3 years after under the Startup India initiative. Aside from the exemption, the Income Tax Act of 1961 includes several other provisions to stimulate the growth of startups such as:

- Section 54EE: The government's Special Funds are allowed to invest up to Rs. 50 lakhs in Long Term Capital Gains tax-free within six months after asset transfer. The exemption is for 3 years.
- Section 54GB: Individuals and HUFs are eligible for tax exemptions on long-term capital gains under Section 54GB. Long-term capital gains earned by selling a property are not taxable when used to purchase another property. This applies to startups as well.
- Section 56 & 56 (2)(viib): Under Section 56, if the startup has a paid-up share capital and shares premium of INR 25 crores or less, it can apply for Angel Tax Exemption. Further, as per Section 56 (2)(viib), Startups can also seek an exemption under the heading 'Income from Other Sources' if they receive consideration for the issuing of shares that exceeds the fair market value of such shares. This can be availed by filing a declaration under Form 2.
- Section 79: Losses can be carried forward if the startup's founder owns 51% or more of the shareholding.
- Section 80IAC: Startups recognized by the government are eligible for a complete exemption from income tax under the head of 'Deduction in Respect of Specified Business'.
- Section 115JB: For startups, the Minimum Alternate Tax (MAT) rate is 18.5%, excluding any applicable surcharges and cess. If a startup fails to be profitable within the initial 5 years of operation, it is exempted from the MAT.

IPR Benefits

The Startup India Scheme enables startups to fast-track the filing of patents, trademarks, and designs. Startups further qualify for a 50% discount on trademark applications. Similarly, they are also eligible for an 80% rebate of patent expenses after filing a patent and are needed to pay substantially less than other businesses when submitting a patent application.

Fast-track Voluntary Closure

Following the filing of the necessary documentation, an insolvency specialist is appointed to the startup and charged with supervising the company's asset sales and creditor payments. Startups are permitted to cease operations within 90 days.

Endnote

The government has been attempting to nurture the entrepreneurial spirit in the country. Beneficial policies and assisted guidance help startups through each stage of their growth process, such as incorporation, structuring, legal compliance, exploring investment options, submitting applications for IPR, etc. Large-scale initiatives like the Startup India Action Plan and the Startup India Seed Fund Scheme (SISFS) launched in April 2021 increase the ease of doing business in India, foster entrepreneurship, and create new job possibilities. The government's sincerity in easing the way by removing administrative impediments, decreasing government intervention, and facilitating finance and incubation support for start-ups are points that are critical to furthering these endeavors.