

2016

START-UP INDIA

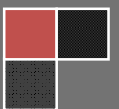
Starting a Start-up Revolution

"I see startups, technology and innovation as exciting and effective instruments for India's transformation."

**-Shri Narendra Modi
Prime Minister of India**

Presentation on Start-up India Scheme
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Chartered Accountants.

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Start –Up India Scheme



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❖ **INTRODUCTION**

Startup India is a flagship initiative of the Government of India, intended to build a strong eco-system for nurturing innovation and Startups in the country that will drive sustainable economic growth and generate large scale employment opportunities. The Government through this initiative aims to empower Startups to grow through innovation and design. In order to meet the objectives of the initiative, Government of India is announcing this Action Plan that addresses all aspects of the Startup ecosystem.

With this Action Plan the Government hopes to accelerate spreading of the Startup movement:

- From digital/ technology sector to a wide array of sectors including agriculture, manufacturing, social sector, healthcare, education, etc.; and
- From existing tier 1 cities to tier 2 and tier 3 cities including semi-urban and rural areas.

The Action Plan is divided across the following areas:

- Simplification and Handholding
- Funding Support and Incentives
- Industry-Academia Partnership and Incubation

❖ Definition of Statup (Only for the purpose of Government Schemes)



Startup means an entity, incorporated or registered in India not prior to 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.

Provided that such entity is not formed by splitting up, or reconstruction, of a business already in existence.

Provided also that an entity shall cease to be a Startup if its turnover for the previous financial years has exceeded INR 25 crore or it has completed 5 years from the date of incorporation/ registration.

Provided further that a Startup shall be eligible for tax benefits only after it has obtained certification from the Inter-Ministerial Board, setup for such purpose.

❖ What is Start Up India Scheme?

The economy of every country depends on its countrymen. Larger the number of employed or working people, better the economy. The Indian Government realised that Indian people have a potential to work hardly, all they need is a promising start up. Many people dream of starting up their own business but due to financial or other similar issues are unable to do so. So, Indian Government in the leadership of Narendra Modi has decided to offer a gift as a nation wise programme – **“Start Up India”**

Narendra Modi in his speech acknowledged that Indians have ideas & capability , all the need is a little push.

“ Start Up India Is a revolutionary scheme that has been started to help the people who wish to start their own business. These people have ideas & capabilities , so the Government will give them support to make sure they can implement their ideas and grow. Success of this scheme will eventually make India a better economy and a strong Nation.”

During the speech at the event, Mr. Modi said that we are trying to make the young job creators rather than job seekers. He also said that we are trying to the young job creators rather than job seekers. He also said that one’s mindset should not be towards earning money in the initial phase , it should be rather on grabbing and using the opportunities.

Technology is evolving with the pace faster than ever . This has given birth to various new businesses like E-commerce , internet marketing etc. So, there is a great scope of development in such areas. Those who plan to start new business are eligible to apply.

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❖ Start-up Scheme Launch-

The event was inaugurated on 16 January 2016 by the finance minister Arun Jaitley. Among the attendees were around 40 top CEOs and startup founders and investors from Silicon Valley as special guests including Masayoshi Son, CEO of SoftBank, Kunal Bahl, founder Snapdeal, Ola founder Bhavish Aggarwal, Paytm founder Vijay Shekhar Sharma, Travis Kalanick, founder of Uber, Adam Nuemann, CEO of WeWork, Sachin Bansal, founder of Flipkart and others.

Government's Role-

The Ministry of Human Resource Development and the Department of Science and Technology have agreed to partner in an initiative to set up over 75 such startup support hubs in the National Institutes of Technology (NITs), the Indian Institutes of Information Technology (IIITs), the Indian Institutes of Science Education and Research (IISERs) and National Institutes of Pharmaceutical Education and Research (NIPERs). The Reserve Bank of India said it will take steps to help improve the 'ease of doing business' in the country and contribute to an ecosystem that is conducive for the growth of start-up businesses.

❖ Investments

SoftBank, which is headquartered in Japan, has invested \$2 billion into Indian startups. The Japanese firm had pledged the total investments at \$10 billion. Google declared to launch a startup, based on the highest votes in which the top three startups will be allowed to join the next Google Launchpad Week, and the final winner could win an amount of \$100,000 in Google cloud credits. **Pradhan Mantri Mudra Yojana** is also one of the similar initiatives to refinance the micro units.

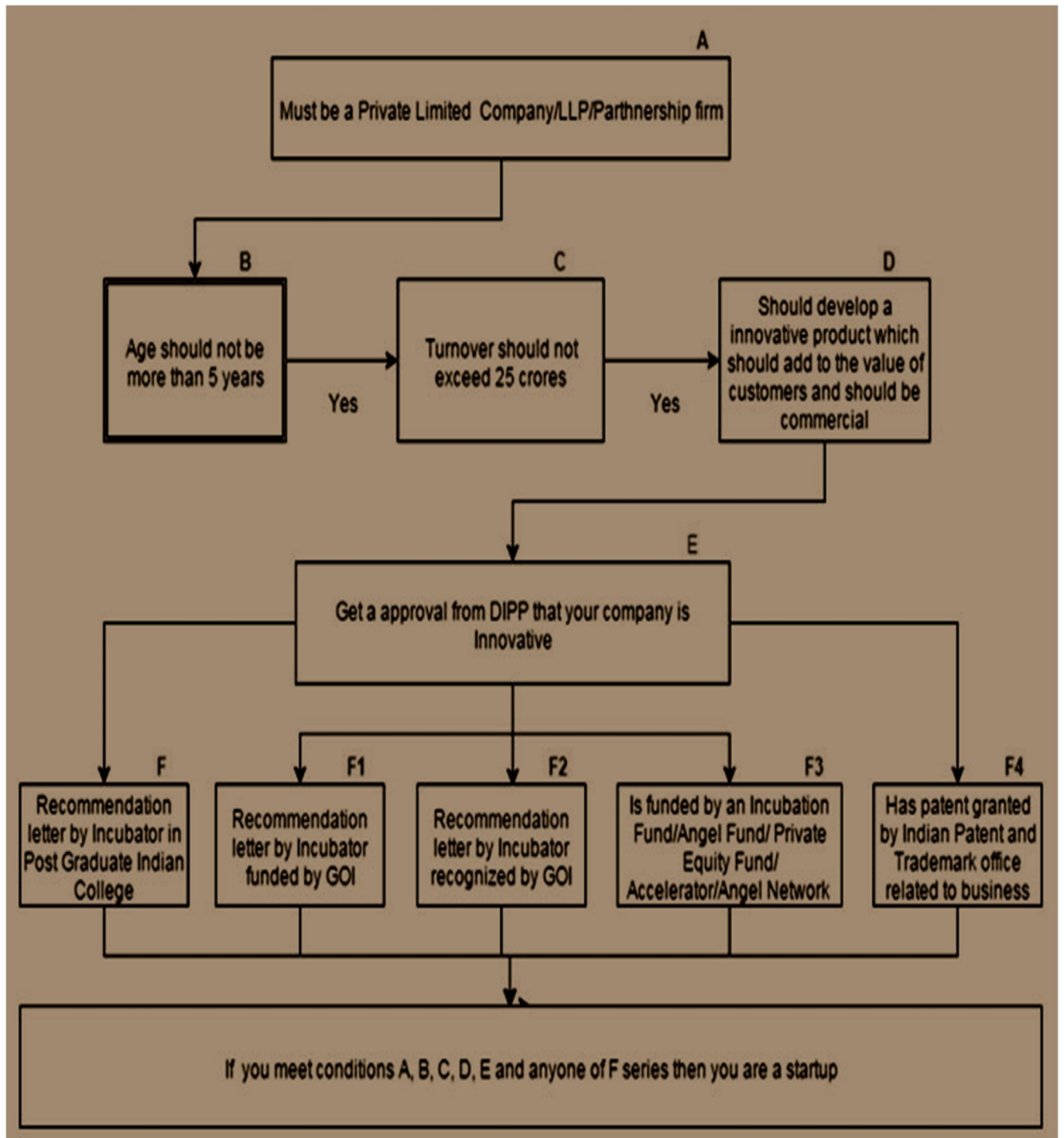


❖ What is the eligibility for startups?

To become eligible as a startup and get a green signal from the Inter-Ministerial Board, the entity should be the **one which aims to develop and commercialize a new product or service or process or a significantly improved existing product or service or process that will create or add value for customers or workflow.** Products, services or process, which do not have potential for commercialization or is undifferentiated or have no or limited incremental value will not be considered under the Scheme. To be considered as eligible as startup the entity, should be supported by

- a recommendation (with regard to innovative nature of business), in a format specified by Department of Industrial Policy and Promotion, from an Incubator established in a post-graduate college in India
- an incubator, which is funded (in relation to the project) from Government of India as part of any specified scheme to promote innovation
- a recommendation (with regard to innovative nature of business), in a format specified by DIPP, from an Incubator recognized by Government of or
- be funded by an Incubation Fund/ Angel Fund/ Private Equity Fund/ Accelerator/Angel Network duly registered with SEBI that endorses innovative nature of the business or
- be funded by Government of India as part of any specified scheme to promote innovation or
- have a patent granted by the Indian Patent and Trademark Office in areas affiliated with the nature of business being promoted

This eligibility criteria is presented in flowchart given below for more understanding of readers.



Highlights of Start- up India

1. Self certification

The start-ups will adopt self-certification to reduce the regulatory liabilities. The self-certification will apply to laws including payment of gratuity, labour contract, provident fund management, water and air pollution acts.

2. Start-up India hub

An all-India hub will be created as a single contact point for start-up foundations in India, which will help the entrepreneurs to exchange knowledge and access financial aid.

3. Easy Registration

An online portal, in the shape of a mobile application, will be launched to help start-up founders to easily register. The app is scheduled to be launched on April 1.

4. Patent protection

A fast-track system for patent examination at lower costs is being conceptualized by the central government. The system will promote awareness and adoption of the Intellectual Property Rights (IPRs) by the start-up foundations.

5. Corpus Funds of Rs. 10,000 crore to support start-up.

The government will develop a fund with an initial corpus of Rs 2,500 crore and a total corpus of Rs 10,000 crore over 4 years, to support upcoming start-up enterprises. The Life Insurance Corporation of India

will play a major role in developing this corpus. A committee of private professionals selected from the start-up industry will manage the fund.

6. National Credit Guarantee Trust Company

A National Credit Guarantee Trust Company (NCGTC) is being conceptualized with a budget of Rs 500 crore per year for the next four years to support the flow of funds to start-ups.

7. No Capital Gains Tax

At present, investments by venture capital funds are exempt from the Capital Gains Tax. The same policy is being implemented on primary-level investments in start-ups.

8. No Income Tax for three years

Start-ups would not pay Income Tax for three years. This policy would revolutionize the pace with which start-ups would grow in the future.

9. Tax exemption for investments of higher value

In case of an investment of higher value than the market price, it will be exempt from paying tax

10. Building entrepreneurs

Innovation-related study plans for students in over 5 lakh schools. Besides, there will also be an annual incubator grand challenge to develop world class incubators.

11. Atal Innovation Mission

The Atal Innovation Mission will be launched to boost innovation and encourage talented youths.

12. Setting up incubators

A private-public partnership model is being considered for 35 new incubators and 31 innovation centres at national institutes.

13. Research parks

The government plans to set up seven new research parks, including six in the Indian Institute of Technology campuses and one in the Indian Institute of Science campus, with an investment of Rs 100 crore each.

14. Entrepreneurship in biotechnology

The government will further establish five new biotech clusters, 50 new bio incubators, 150 technology transfer offices and 20 bio-connect offices in the country.

15. Dedicated programmes in schools

The government will introduce innovation-related programmes for students in over 5 lakh schools.

16. Legal support

A panel of facilitators will provide legal support and assistance in submitting patent applications and other official documents.

17. Rebate

A rebate amount of 80 percent of the total value will be provided to the entrepreneurs on filing patent applications.

18. Easy rules

Norms of public procurement and rules of trading have been simplified for the start-ups.

19. Faster exit

If a start-up fails, the government will also assist the entrepreneurs to find suitable solutions for their problems. If they fail again, the government will provide an easy way out.

❖ How to Register?

Start Up India Official application is expected to be launched on 1st April 2016 for the registration of Start Up in one day.

❖ Tax Exemption on Investment above Fair Market Value

Objective:

To encourage seed-capital investment in Startups.

Details:

Under The Income Tax Act, 1961, where a Startup (company) receives any consideration for issue of shares which exceeds the Fair Market Value (FMV) of such shares, such excess consideration is taxable in the hands of recipient as Income from Other Sources.

In the context of Startups, where the idea is at a conceptualization or development stage, it is often difficult to determine the FMV of such shares. In majority of the cases, FMV is also significantly lower than the value at which the capital investment is made. This results into the tax being levied under section 56(2) (viib).

Currently, investment by venture capital funds in Startups is exempted from operations of this provision. The same shall be extended to investment made by incubators in the Startups.

❖ Tax Exemption to Start-up for 3 Years.

Objective

To promote the growth of Startups and address working capital requirements

Details

Innovation is the essence of every Startup. Young minds kindle new ideas every day to think beyond conventional strategies of the existing corporate world. During the initial years, budding entrepreneurs struggle to evaluate the feasibility of their business idea. Significant capital investment is made in embracing ever-changing technology, fighting rising competition and navigating through the unique challenges arising from their venture. Also, there are limited alternative sources of finance available to the small and growing entrepreneurs, leading to constrained cash funds. With a view to stimulate the development of Startups in India and provide them a competitive platform, it is imperative that the profits of Startup initiatives are exempted from income-tax for a period of 3 years. This fiscal exemption shall facilitate growth of business and meet the working capital requirements during the initial years of operations. The exemption shall be available subject to non-distribution of dividend by the Startup.



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