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Startup bodies appeal for relaxations in tax policies

By PTI | Updated: Jan 18, 2017, 04:46 PM IST

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MUMBAI: Prominent startup industry bodies including Indian Angel Network, NASSCOM, Indian Venture Capital Association, TiE and Mumbai Angels have jointly appealed to the government to review taxation policies that adversely impact the startup ecosystem.

"Startups have been facing practical difficulties on the taxation front following the blanket applicability of certain sections. We have made a representation to the government on January 16 regarding this," Saurabh Srivastava, prominent venture capitalist, and co-founder of Indian Angel Network and told reporters here.

Section 56 of the Income Tax Act presently states that money paid by investors for shares in a private Indian company will be subject to 33% tax. "Normally, valuations in the angel round of funding are based on long-term expectations of the startup succeeding. Taxing these early stage investments is detrimental to their performance," he further said.

"There should be a separate carve-out for angel groups in Section 56. Also, benefits for venture capital funds should be made broader," he further said.

The industry representatives believe that aggressive tax collection by the IT department will adversely impact India's flagship Start-up Action Plan, 'Make In India' initiative and its Ease of Business ranking.

According to the Economic Survey released for 2015-16, the Indian venture capital backed companies topped \$12 billion (approximately Rs 82,500 crore) across more than 1,220 deals in the past two years.

"The size and importance of such funding have been huge in the past few years and the government has done well to recognise that. It is important that they now ensure streamlined laws to encourage the ecosystem," Rajat Tandon, president of Indian Private Equity and Venture Capital Association said.

Startups have also appealed that short-term capital gains for startup investors should be 15% and the holding period for computing long-term capital gains tax should be one year.

"Presently, the laws regarding capital gains are extremely complicated, especially for startup investment. In order to attract more foreign investors, it is essential to simplify this," Nishit Desai, founder of Nishit Desai Associates, and board member of TiE said.

Startups have appealed that the government should also consider eliminating Minimum Alternate Tax for startups, which are DIPP certified.



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