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**STARTUP INDIA, STAND UP INDIA**

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**STARTUP INDIA, STAND UP INDIA**

To augment the entrepreneurial spirit of country's youth and tap on the immense potential of innovative ideas, the Government of India has recently launched its ambitious new scheme, '**Startup India**'. While vast majority of Indian population is below 35 years of age and the Start-up culture is on the rise, young ventures face many challenges including lack of clarity on regulatory approvals, multiple registrations and compliances, lack of supporting ecosystem and most important funding constraints. Sensitive to these constraints, the Government has decided to provide an enabling environment for nurturing talent, simplifying systems and processes, handholding, mentoring and incubating new ventures and most important providing financial support through this new initiative.

A '*Start-up*' has been defined under the 'Startup India' action plan dated January 16, 2016 as "*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.*"

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The entity will not qualify as a Start-up if it is formed by splitting up, or reconstruction, of a business already in existence<sup>1</sup>.

In essentiality, a Start-up would involve development and commercialization of:-

- 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.

Some of the interesting features of the action plan are:

- **Compliance Regime based on Self Certification:** Easing of compliances and self-certification with respect to 9 labour and environmental laws, no inspections to be conducted for a period of 3 years in case of labour laws and self-certification for environment laws for the Start-ups falling under the 'white category' with only random inspections, if required.
- **Start-up India Hub:** Creation of an all-India hub as a single point contact for Start-up entities for exchange and access to knowledge and finance through foreign venture capitalists, angel networks, banks, incubators etc.
- **Rolling-out of Mobile Application and Portal:** Launch of a mobile application (with effect from April 1, 2016) to provide 'on the go' accessibility for registration of the Start-ups, checklist covering labour licensing, environmental clearances etc., filing for compliances, collaborating with the other Start-up ecosystem partners etc.
- **Facilitation for Fast-tracking Patent Examination at Lower Costs:** Empanelment of facilitators to assist the Start-ups in Intellectual Property related matters including filing of Patents, Trademarks and Designs applications. The facilitation cost for filings and other assistance would be borne by the Government and there will be 80% rebate in filing of patents.

- **Relaxed Norms of Public Procurement for Start-ups:** Exemption to Start-ups (in the manufacturing sector) from the criteria of “prior experience/turnover” without any relaxation in quality standards or technical parameters.
- **Faster Exit for Start-ups:** Enabling a swift and simple process for Start-ups to wind-up operations. The Insolvency and Bankruptcy Bill 2015 (IBB), tabled in the Indian Parliament in December, 2015 would enable fast track voluntary closure of businesses for Start-ups (with simple debt structures or those meeting the specified criteria), to be wound up within a period of 90 days from making of an application for winding up.
- **Providing Funding Support through a Fund of Funds:** Establishment of a fund with an initial corpus of INR 2,500 crore and a total corpus of INR 10,000 crore over a period 4 years (i.e. INR 2,500 crore per year). The Fund will not invest directly into Start-ups, but will participate in the capital of SEBI registered venture capital funds who would be investing in the Start-ups.
- **Credit Guarantee Fund for Start-ups:** Availability of credit guarantee mechanism through National Credit Guarantee Trust Company with a budget of Rs. 500 crore per year for the next four years to support the flow of funds to the Start-ups.
- **Tax Exemption on Capital Gains:** Exemption to persons on capital gains during the year where such capital gains are invested in the fund of funds recognized by the Government. In addition, existing capital gain tax exemption for investment in newly formed manufacturing micro, small and medium enterprises by individuals will be extended to all Start-ups.
- **Tax Exemption to Start-up for 3 years:** Exemption from income tax on profits of Start-ups for a period of 3 years subject to non-distribution of dividend by the Start-ups. To avail the tax benefit the Start-ups would need to obtain certification from the Inter-Ministerial Board, setup for this purpose.
- **Tax Exemption on Investment above Fair Market Value:** In accordance with the Income Tax Act, 1961, where a 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. However, for a Start-up venture, it is difficult to determine the FMV of such shares which generally is lower than

the value at which the capital investment is made which results into levy of tax. Currently, investment by venture capital funds in Start-ups is exempted from operations of the aforesaid provision. The same facility will be extended to investment made by incubators in the Start-ups.

- **Building Entrepreneurs:** Introduction of innovation related study plans for students in over 5 lakh schools and holding of an annual incubator grand challenge to develop world class incubators.
- **Atal Innovation Mission:** Launch of The Atal Innovation Mission to promote innovation and entrepreneurship through self-employment and talent utilization.
- **Setting up Incubators:** Establishment of a private public partnership model for 35 new incubators and 31 innovation centres at national institutes.
- **Research Parks:** Establishment of seven new research parks, including 6 in the Indian Institute of Technology campuses and one in the Indian Institute of Science.

The Startup India, Stand up India Initiative of the Government of India is an ambitious scheme to encourage entrepreneurship, create new employment opportunities and promote ease of doing business in India. However, its' success will largely depend on the Government's earnestness in implementing the scheme in letter and spirit, reducing the bureaucratic hurdles and minimizing Government's interference together with facilitation of financial and incubation support to the Start-ups.

On the eve of India's 67<sup>th</sup> Republic Day, we hope that the Government of India and the energetic Indian Start-up ventures would be able to successfully work towards a dynamic innovative future.

#### **Endnote**

<sup>[1]</sup>*In order to avail various exemptions and benefits of the scheme, the following additional eligibility criterion has to be met by a Start-up:*

- *The Start-up should be supported by a recommendation (with regard to innovative nature of business), from an incubator established in a post-graduate college in India; or*
- *The Start-up should be supported by an incubator which is funded (in relation to the project) from Government as part of any specified scheme to promote innovation; or*
- *The Start-up should be supported by a recommendation (with regard to innovative nature of business), from an Incubator recognized by Government; or*
- *The Start-up should 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*
- *The Start-up should be funded by Government as part of any specified scheme to promote innovation; or*
- *The Start-up should have a patent granted by the Indian Patent and Trademark Office in areas affiliated with the nature of business being promoted.*

### **Feedback**

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