

In recent years, start-ups and the e-commerce industry in India have grown at a rapid pace. The Government has also continually recognized the immense potential this presents and has sought to build an ecosystem and framework, which is conducive for growth of start-ups.

Against this backdrop, Union Budget 2022 has proposed the following measures to promote start-ups:

Policy Measures

Permitting Drone-As-A-Service by start-ups across agriculture and other sectors: This is pursuant to the liberalised Drone policy introduced last year and the PLI scheme for manufacturing drones and its components.

Defence R&D, which is presently monopolized by the public sector, has been opened up for start-ups, private industry and academia. 25% of the budget has been earmarked for such entities. Private sector (including start-ups) will be permitted to take up design and development of military platforms and equipment in collaboration with DRDO and other organizations through SPV models.

Finance support to agri and rural start-ups through a blended capital and co-investment fund facilitated by NABARD: Activities covered include support for Farmer Producer Organisations, providing machinery on rental basis to farmers and IT-based support.

Fiscal Measures

Start-ups incorporated up to March 31, 2023 are now eligible to claim the optional three-year income tax exemption. Earlier, eligible start-ups incorporated between April 1, 2016 and April 1, 2022 could claim full deduction of profits for any three consecutive assessment years within ten years of incorporation under Section 80-IAC of the Income Tax Act, 1961.

Surcharge applicable on capital gains arising on investment into start-ups has been capped at 15% vis-à-vis surcharge of 37% applicable earlier.

ELP's Insights

In her Budget Speech, the Hon'ble Finance Minister noted that Venture Capital and Private Equity have invested over INR 5.5 lakh crore in Indian start-ups in the last year alone, facilitating one of the world's largest start-up and growth ecosystem.

The Union Budget opens up new avenues for start-ups including defense R&D, Drone-as-a-service, Agri and rural support, jewellery exports, etc.

Some of the fiscal measures including the surcharge proposal would certainly strike the right notes with investors as this should significantly improve the returns in their hands.