

Schemes and benefits offered by government of india in promoting startups

S. Ramya, R. Nivetha

Department of B.Com (Professional Accounting), PSGR Krishnammal College For Women, Coimbatore, Tamil Nadu, India .

Department of B.Com, PSGR Krishnammal College For Women, Coimbatore, Tamil Nadu, India.

Corresponding author: S. Ramya

ABSTRACT

India is the second largest populous country in the world with 1.2 billion population strength. To cover up this large population there exist large potentiality of job market in India. According to the latest Asia Pacific Human Development Report, India is facing severe scarcity of job market; growth in unemployment among young graduates and it will last for next 35 years. According to Labor Ministry data, around 1 million people enter the workforce in India every month. To eradicate this scarcity of job market, our Honorable Prime Minister Dr. Narendra Modi, announced on 15th August 2015, “Start Up India, Stand Up India” to promote Bank Financing for startups and offer incentives to boost entrepreneurship and job creation.

Key Words: startups, government, schemes, policies

INTRODUCTION

‘Startup’ does not exist in the Indian context due to the subjectivity and complexity involved. Considering various parameters pertaining to any business such as the stage of their lifecycle, the amount and level of funding achieved, the amount of revenue generated, the area of operations, etc.,. These have been sourced and enumerated below to provide an indicative understanding on the space to the reader. The Department of Industrial Policy and Promotion (DIPP) is also working for startups and is expected to make it public in due course. A Start Up would mean 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 for 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.

Modi announced a cluster of 10 initiatives to boost the startup business in India:

- A Rs 10,000 crore to bank startups – the initial corpus will be Rs 2,500 crore, along with a credit guarantee fund for startups.
- Tax exemptions for 3 years and concessions on capital gains tax
- Atal Innovation Mission (AIM) for promotion of research and development including 500 tinkering labs, 35 public-private sector incubators, 31 innovation centres at national institutes, 7 research parks, 5 new bio clusters. Also new policies to help women entrepreneurs.
- Compliance regime based on self-certification and no regulatory inspection for 3 years.
- Easy exit option would be provided under the Bankruptcy Act so that startups can exit within 90 days.
- A mobile app to be launched by April 1 to help startups register in one day.
- A startup India hub – a single point of contact for interactions with the government.
- Fast-track mechanism for startup patent applications with 80% reduction in patent filing fee. Also a panel of legal facilitators for startups to file Intellectual Property (IP) rights with costs borne by the Government.
- 5 lakh schools and about 10 lakh students to be involved in core innovation programmes. National and International startup festivals to provide visibility.
- Relaxed norms of public-procurement for startups, no requirement of turnover or experience, but there will be no relaxation in quality.

Startup India

Startup India campaign is based on an action plan aimed at promoting bank financing for start-up ventures to boost entrepreneurship and encourage start-ups with jobs creation. The campaign was first announced by our Prime Minister Shri. Narendra Modi on 15th August, 2015. It is focused on to restrict role of States in policy domain and to get rid of "**License_Raj**" and hindrances like land permissions, foreign investment proposal and environmental clearances. It was organized by Department of Industrial Policy and Promotion. The government has already launched PMMY, the MUDRA Bank, a new institution set up for development and refinancing activities relating to micro units with a refinance fund of Rs. 200 billion.

- Single Window Clearance even with the help of a mobile application.
- 10,000 Crores fund of funds
- 80% reduction in patent registration fee
- Modified and more friendly Bankruptcy Code to ensure 90-day exit window.
- Freedom from mystifying inspections for 3 years.
- Freedom from Capital Gain Tax for 3 years.
- Freedom from tax in profits for 3 years.
- Eliminating red tape.
- Self-certification compliance.
- Innovation hub under Atal Innovation Mission.
- Starting with 5 Lakh schools to target 10 Lakh children for innovation programmer.
- New schemes to provide IPR protection to start-ups and new firms.
- Encourage entrepreneurship.

RESEARCH ON SETTING UP STARTUPS

Government shall be Setting up of 7 New Research Parks Modeled on the Research Park Setup at IIT Madras. Investment to the tune of INR 100 core each for seven new Research Park has been allotted to break down the traditional, artificial barriers of innovation through its connectivity and collaborative interaction. Specialempphasis is being given to promote Startups in Biotechnology Sector. Department of Biotechnology endeavors to scale up the number of startups in the sector by nurturing approximately 300 to 500 new startups each year to have around 2,000

Start-ups by 2020. 5 new bio-clusters, 50 new Bio-Incubators, 150 Technology transfer offices and 20 Bio-Connect Offices will be set up in research Institute and universities across India.

ACTIVE PLANS OF OUR GOVERNMENT

The action plan, the Government hopes to accelerate spreading of the Start UP Movement:

- From Digital/Technology sector to a wide array of sectors including agriculture, manufacturing, social sector, health care, education etc..
- From existing Tier 1 Cities to Tier 2 & Tier 3 cities including semi urban and rural areas.
- The Action Plan is divided across the following areas:

- Simplification and Handholding
- Funding supported incentives.
- Industry/academia partnership and incubation

Relaxed Norms of Public Procurement for Startups

Whenever a tender is floated by a Government entity or by a PSU, eligibility condition specifies either prior experience or prior turnover. Such a stipulation prohibits/ impedes Startups from participating in such tenders.

To promote Startups, Government shall exempt Startups (in the manufacturing sector) from the criteria of “prior experience/ turnover” without any relaxation in quality standards or technical parameters.

Tax Exemption to Startups for 3 years

With a view to stimulate the development of Startups in India and provide them a competitive platform, the government of India has exempted the Startup from paying income-tax on their profit for a period of 3 years.

Tax Exemption on Investments above Fair Market Value

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

RBI guidelines on ECB for startups

- The Reserve Bank in the Fourth Bi-monthly Monetary Policy Statement for the year 2016-17 released on October 04, 2016, permitted Startup enterprises to access loans under ECB framework.
- The borrowing should be denominated in any freely convertible currency or in Indian Rupees (INR) or a combination. In the case of borrowing in INR, the foreign currency – INR conversion will be at the market rate as on the date of the agreement.

- The borrowing per Startup will be limited to USD 3 million or equivalent per financial year either in INR or any convertible foreign currency or a combination of both.
- Conversion into equity is freely permitted, subject to Regulations applicable for foreign investment in Startups.
- The overseas lender, in the case of INR, denominated ECB, will be eligible to hedge its INR exposure through permitted derivative products with AD Category – I banks in India.
- Who are eligible to be a lender under the guidelines
- Lender/investor shall be a resident of a country who is either a member of Financial Action Task Force (FATF) or a member of an FATF-Style Regional Bodies.

How to register your startup with Startup India

Step 1: Incorporate your business

You must first incorporate your business as a Private Limited Company or a Partnership firm or a Limited Liability Partnership

You have to follow all the normal procedures for registration of any business like obtaining the certificate of Incorporation/Partnership registration, PAN, and other required compliances.

Step 2: Register with Startup India

Then the business must be registered as a startup. The entire process is simple and online. All you need to do is log on to the Startup India website and fill up the form with details of your business and upload certain documents.

Step 3: Documents to be uploaded (in PDF format only)

A letter of recommendation must be submitted along with the registration form. Any of the following will be valid-

- (i) A recommendation (regarding innovative nature of business) from an Incubator established in a post-graduate college in India, in a format specified by the Department of Industrial Policy and Promotion (DIPP); OR
- (ii) A letter of support by an incubator, which is funded (in relation to the project) by Government of India as part of any specified scheme to promote innovation; OR

- (iii) A letter of recommendation (regarding innovative nature of business), from an Incubator, recognized by the Government of India in DIPP specified format; OR
- (iv) A letter of funding of not less than 20% in equity, by any Incubation Fund/Angel Fund/Private Equity Fund/Accelerator/Angel Network, duly registered with SEBI that endorses innovative nature of the business; OR
- (v) A letter of funding by Government of India or any State Government as part of any specified scheme to promote innovation; OR
- (vi) A patent filed and published in the Journal by the Indian Patent Office in areas affiliated with the nature of the business being promoted.

b) Incorporation/Registration Certificate

You need to upload the certificate of incorporation of your company/LLP (Registration Certificate in case of partnership)

c) Description of your business in brief

A brief description of the innovative nature of your products/services.

Step 4: Answer whether you would like to avail tax benefits

Startups are exempted from income tax for 3 years. But to avail these benefits, they must be certified by the Inter-Ministerial Board (IMB). Start-ups recognized by DIPP, Govt. of India can now directly avail IPR related benefits without requiring any additional certification from IMB.

Step 5: Finally, you must self-certify that you satisfy the following conditions

- a) You must register your new company as a Private Limited Company, Partnership firm or a Limited Liability Partnership
- b) Your business must be incorporated/registered in India, not before 5 years.
- c) Turnover must be less than 25 crores per year.
- d) Innovation is a must– the business must be working towards innovating something new or significantly improving the existing used technology.
- e) Your business must not be as a result of splitting up or reconstruction of an existing business.

Step 6: Immediately get recognition number

That's it! On applying you will immediately get a recognition number for your startup. The certificate of recognition will be issued after the examination of all your documents.

However, be careful while uploading the documents. If on subsequent verification, it is found to be obtained that the required document is not uploaded/wrong document uploaded or a forged document has been uploaded then you shall be liable to a fine of 50% of your paid-up capital of the startup with a minimum fine of Rs. 25,000.

Step 7: Other areas

a) Patents, trademarks and/or design registration

If you need a patent for your innovation or a trademark for your business, you can easily approach any from the list of facilitators issued by the government. You will need to bear only the statutory fees thus getting an 80% reduction in fees.

b) Funding

One of the key challenges faced by many startups has been accessing to finance. Due to lack of experience, security or existing cash flows, entrepreneurs fail to attract investors. Besides, the high-risk nature of startups, as a significant percentage fail to take-off, puts off many investors.

In order to provide funding support, Government has set up 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 is in the nature of Fund of Funds, which means that it will not invest directly into Startups, but shall participate in the capital of SEBI registered Venture Funds.

Documents To Be Submitted During Registration

1. Photo ID
2. Address proof
3. Rental agreement of the registered office
4. No objection certificate from the owner

Key features of the Fund of Funds

- The Fund of Funds shall be managed by a Board with professionals from industry bodies, academia, and successful Startups.
- Life Insurance Corporation (LIC) shall be a co-investor in the Fund of Funds
- The Fund of Funds shall contribute to a maximum of 50% of the SEBI registered Venture Funds (“daughter funds”). In order to be able to receive the contribution, the daughter fund

should have already raised the balance 50%. The Fund of Funds shall have representatives on the board of the venture fund based on the contribution made.

Proposed schemes and incentives

Compliance Regime based on Self-Certification

Every startup needs to comply with various labor and environmental laws and regulations. Also, the formalities requiring conformity of these laws are time-consuming. Therefore, to make compliance for Startup friendly and flexible, simplifications are introduced by self-certification scheme. By self-certification, a startup will comply itself to an inclusive nine labor and environmental laws. Also, no inspection regarding these laws will be conducted till a time period of three years.

The nine laws will include the following

Labor laws

- The Building and Other Constructions Workers' (Regulation of Employment & Conditions of Service) Act, 1996
- The Inter-State Migrant Workmen (Regulation of Employment & Conditions of Service) Act, 1979
- The Payment of Gratuity Act, 1972
- The Contract Labor (Regulation and Abolition) Act, 1970
- The Employees' Provident Funds and Miscellaneous Provisions Act, 1952
- The Employees' State Insurance Act, 1948

Environmental laws

- The Water (Prevention & Control of Pollution) Act, 1974
- The Water (Prevention & Control of Pollution) Cess (Amendment) Act, 2003
- The Air (Prevention & Control of Pollution) Act, 1981

Startup Intellectual Property Protection Scheme (SIPP)

With the SIPP scheme, the registered startups will face no trouble in patenting procedure, design procedure, and trademark procedure.

- **Government to bear facilitation cost:** Under this scheme, the Central Government shall bear the entire fees of the facilitators for any number of patents, trademarks or designs that a Startup may file, and the Startups shall bear the cost of only the statutory fees payable.
- **Ownership of the IPR under the SIPP scheme:** The startup will have sole ownership of the patent, and no governmental authority will claim its right over the intellectual property.
- **Rebate on the filing of application:** An 80% rebate in the filing of patents vis-a-vis other companies. This will help them pare costs in the crucial formative years.

CONCLUSION

The action plan unveiled by Mr. Modi is a wave maker, but to make it a radical stimulus for the growth of start-ups, it is very much necessary that the power to decide the viability and existence of start-ups is taken away from the ‘inter-ministerial board.’ It is recommended that instead of ‘inter-ministerial board,’ a board of ‘professional experts’ should be set up to decide on the viability of start – ups. Further, to make sure that this board of ‘professional experts’ takes unbiased decisions on the applications received, a conclusive set of regulations should be made to regulate its conduct while making any decision on the ‘existence and viability’ as well as ‘eligibility for tax benefits’ of new start-ups. In the case of any conflicts arising out of bigoted decisions, one should be given an option to approach the Indian Judiciary.

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