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Govt changes angel tax rules to address concerns

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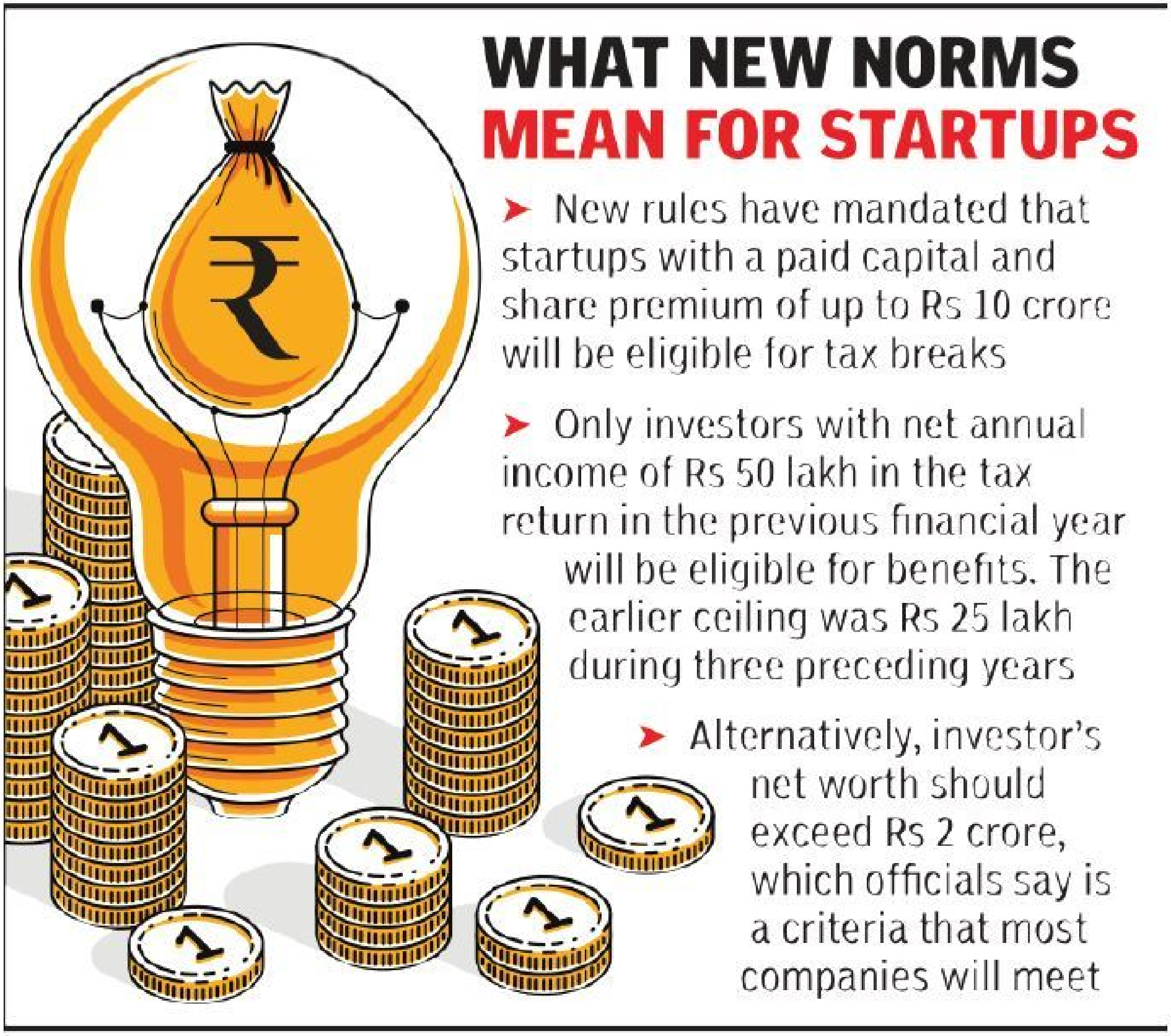
NEW DELHI: The government on Wednesday sought to clear the air on tax exemption for investment in startups by angel investors and specified a new mechanism to ensure that a decision on the benefits is taken by tax authorities within 45 days.

Under the new rules, a startup will first need to be recognised by the department of industrial policy and promotion (DIPP) to be eligible for concessions for shares that have been issued or are proposed to be issued. The startups will then have to seek tax breaks, for which DIPP will approach the I-T department.

Earlier, there was a need for a certification by an inter-ministerial board. The earlier requirement of startups to submit a report from a merchant banker specifying the fair market value of shares has also been done away with. "The entire process has been simplified by making an application to the CBDT through the DIPP," said an official.

At the same time, cases where the tax department has issued an assessment will not be eligible for tax breaks, an official notification said. The notification meant to soothe nerves of worried investors amid tax notices came a day before Prime Minister Narendra Modi addresses investors in Gujarat.



Tax experts are not fully satisfied. "Since one of the criteria is that the investor should have returned income of more than Rs 50 lakh, investments from family offices and angel groups may not benefit. Strangely, they still want the basis of valuation with the form," said Amit Maheshwari, managing partner at Ashok Maheshwary & Associates.

These new norms are likely to encourage startups to seek exemptions, as many of them earlier refrained from seeking this benefit due to 'cumbersome' processes. Since April 2018, only two startups have got these exemptions. Normally, 300-400 startups get angel funding every year.