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Startup India - Action Plan

The latest brain-child of the Government of India, the Startup India - Action Plan (**Action Plan**), is a flagship initiative, intended to build a strong eco-system for nurturing innovation and startups in the country, and to drive sustainable economic growth and generate large scale employment opportunities. Considering the fact that India has the third largest number of startups globally¹, this initiative from the present Government is an indeed welcome attempt to motivate entrepreneurs to convert their unattainable ideas into reality.

Myriad factors, such as effective implementation of the Action Plan, the actual ease of doing business on a ground level that it generates, how responsive is the Government in addressing the practical difficulties/hurdles, etc. would play a key role in determining how successful the Action Plan actually is.

Below is our summary of some of the important highlights of the Action Plan.

What is a Startup?

A 'Startup' is an entity, incorporated or registered in India not prior to 5 (five) years, with annual turnover not exceeding INR 25 Crores in any preceding financial year, working towards innovation, development, deployment or commercialization of new products, processes or services driven by technology or intellectual property.

The other conditions for an entity to qualify as a Startup, include:

- The entity should not have been formed by splitting up or reconstruction of a business already in existence.
- The entity shall cease to be a Startup if its turnover for the previous financial years has exceeded INR 25 Crores or it has completed 5 years from the date of incorporation/ registration.
- A Startup would be eligible for tax benefits only after it has obtained certification from the Inter-Ministerial Board to be setup by the Department of Industrial Policy and Promotion to validate the innovative nature of the business for granting tax related benefits (**Board**).

Startup India Hub:

The 'Startup India Hub' would be a key element of the Action Plan and act as a single point of contact for compliance and handholding, knowledge-exchange and access to funding. Also, it would allow Startups to work in a 'hub and spoke' model and collaborate with Central & State governments, Indian and foreign VCs, angel networks, banks, incubators, legal partners, consultants, universities and R&D institutions. With this initiative, the Government aims at assisting Startups through their lifecycle, with specific focus on important aspects like obtaining financing, feasibility testing and management evaluation, and nurturing them through mentorship programs.

Relaxation in Compliance Regime:

Startups would be able to self-certify compliance with certain specified labour and environment laws, such as the Payment of Gratuity Act, 1972, Contract Labour (Regulation and Abolition) Act, 1970, Employees' Provident Funds and Miscellaneous Provisions Act, 1952, The Air (Prevention & Control of Pollution) Act, 1981, etc.

Further, no inspection of the Startups, which is otherwise required under these specified labour laws, will be conducted for 3 (three) years. In case of environment laws, Startups under 'white' category (as defined by the Central Pollution Control Board) would be able to self certify compliance, though random checks may still be carried out by the concerned authorities.

Rolling-out of Mobile App and Portal

The Government has planned to roll out a 'mobile app', which will help Startups to quickly get off the ground and commence operations by just filling up a short form through a mobile application. The app will also have features like registering Startups with relevant agencies of the Government through a single form, tracking the status of registration, downloading registration certificate, filing compliances, and obtaining clearances and approvals.

¹ <http://economictimes.indiatimes.com/small-biz/startups/india-ranks-third-in-global-startup-ecosystem-nasscom/articleshow/49341735.cms>

Legal Support and Fast-tracking Patent Examination:

The Action Plan lists down various measures to be undertaken by the Government, such as fast-tracking examination of patent applications filed by Startups and 80% rebate in fees for filing of patents by Startups vis-a-vis other companies, setting-up a panel of facilitators to assist and advise Startups in protection and registration of all types of Intellectual Property Rights (for which entire cost of facilitation will be borne by the Government).

Easy Exit Option:

The Government has proposed to make it easier for Startups to close and wind up their business and operations, by having in place a swift and simple process to be complied with in this regard.

Providing Funding Support through a Fund of Funds:

While Government will not directly invest or fund Startups, it will be setting up a Fund of Funds with a total corpus of Rs. 10,000 Crores over a period of 4 (four) years. The Fund of Funds shall be managed by a board comprising of private professionals drawn from industry bodies, academia, and successful Startups.

Tax Exemptions:

The profits generated by Startups would be exempt from income-tax for a period of 3 (three) years, subject to non-distribution of dividends by the Startup during this period. This would facilitate Startups in the growth of business and meeting their working capital requirements during the initial years of operations.

Further, persons having capital gains during the year, can avail exemption from paying taxes on such capital gains if they have invested such capital gains in the 'Fund of Funds' recognized by the Government. This would ensure availability of more funds for investment in Startups.

Harnessing Private Sector Expertise for Incubator Setup:

Government will also focus on setting-up of incubators across the country, in public-private partnership.

Impact of the Action Plan in the long run:

- Facilitate and host a conducive environment for Startups.
- Significant boost to entrepreneurship in India.
- Creation of new employment opportunities.
- Easier access to funding opportunities for Startups.

Suggestions for Effective Implementation:

While the Action Plan is being perceived by many as a beginning to the Big Bang in India², it may be useful to keep the following in mind while implementing the Action Plan:

- The Board, set up to give necessary certification for tax benefits, should be strong, effective and well-regulated.
- The Board should enforce a swift and time-bound process for seeking certifications, which is entirely online. No personal interaction with the Board should be required, except in cases where the Board has rejected any application and the concerned applicants wish to have a personal dialog with the Board members, to reconsider their decision.
- There should be more clarity and definite criteria (with no contradictions or loopholes in the drafting of the relevant provisions) for determining who would qualify as a Startup.
- Arrangements to have in place sound technology and infrastructure support to match pace with the dynamic eco-system proposed.

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² <http://www.thehindu.com/business/narendra-modi-unveils-start-up-india/article8112821.ece>