

AN OVERVIEW OF GOVERNMENT INCENTIVES FOR STARTUPS

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Background



Indian economy: a dichotomy

3rd

Largest in the World
by Purchasing
Power Parity¹

5th

Largest in the
World by
Nominal GDP²

Projected to
overtake the US by³

2030

Annual growth in
FDI equity inflow
for FY 2020⁴

28%

Ease of Doing Business Rankings 2019

- ▶ India's position among 190 countries
- ▶ India Overall Rank: 63 (Jumped up by 14 places as against previous year ranking of 77)⁵
- ▶ Prime Minister Narendra Modi aspires to become a US\$5t economy by 2024
- ▶ Currently there is US\$158.50b worth of investments planned for the country⁶

Sources:

1. World Bank Database – Ranking of countries by Gross Domestic Product in 2018, World Bank Website

2. World Bank Database – Nominal GDP Indicator, World Bank Website

3. Report by economists from Standard Chartered Plc

Sources:

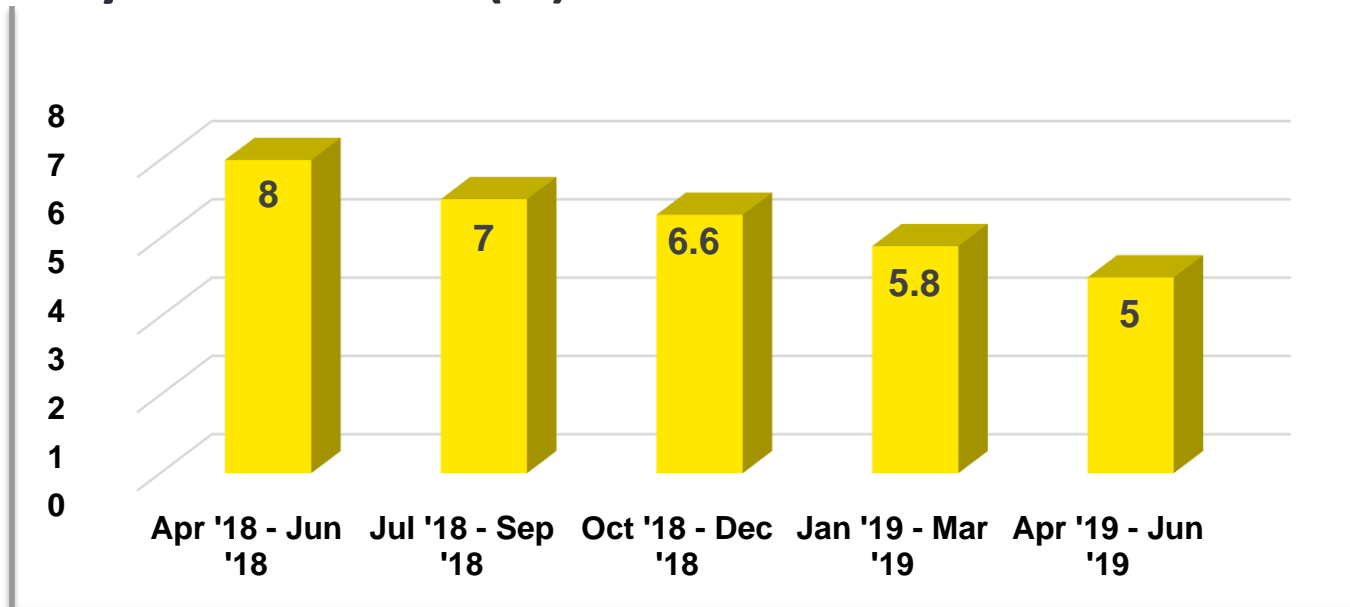
4. June 2019 Quarterly Fact Sheet – Department of Industrial Policy and Promotion, Government of India

5. Rankings – Doing Business, World Bank Website

6. Invest India Website

Background

Quarterly GDP Growth (%)#

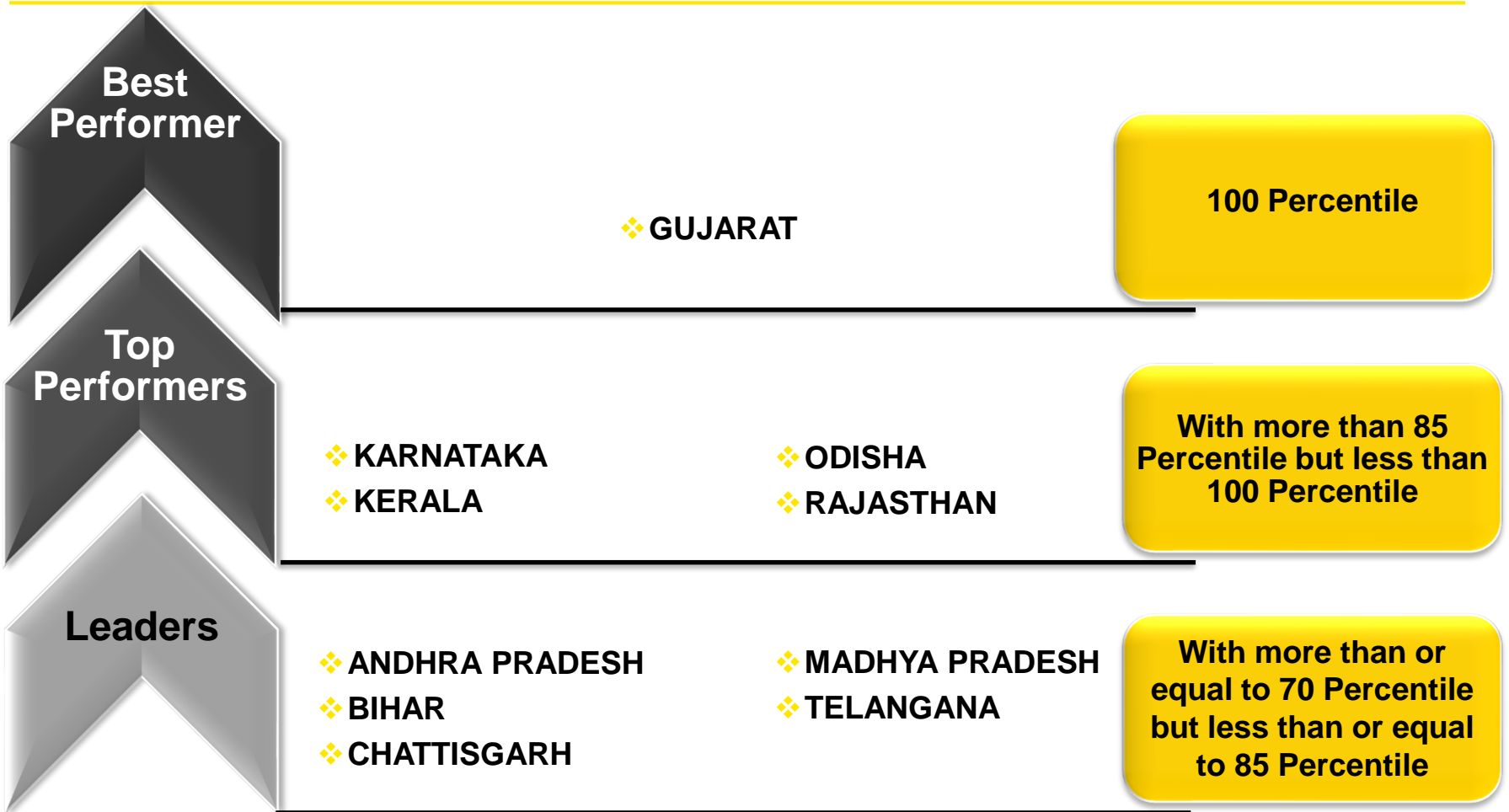


- ▶ A combination of global and domestic factors has resulted in a fall in India's GDP growth **from 8% to 5%**.
- ▶ **Global Factors** – Global Slow down, US – China Trade War, Brexit etc.
- ▶ **Domestic Factors** – Weak domestic consumption, financial sector health etc.

The Country requires some massive regulatory and tax reforms to be considered as a preferred destination in terms of ease of doing business

Source: Economy Watch - Monitoring India's macro-fiscal performance September 2019 (Prepared by Macro-fiscal Unit, Policy Advisory Group, EY India)

Overview of performance of State



Overview of performance of State

Emerging States

- ❖ ASSAM
- ❖ DELHI
- ❖ GOA
- ❖ MAHARASHTRA
- ❖ UTTARAKHAND
- ❖ PUNJAB
- ❖ TAMIL NADU
- ❖ JAMMU & KASHMIR

With more than 50
Percentile but less
than 70 Percentile

Beginners

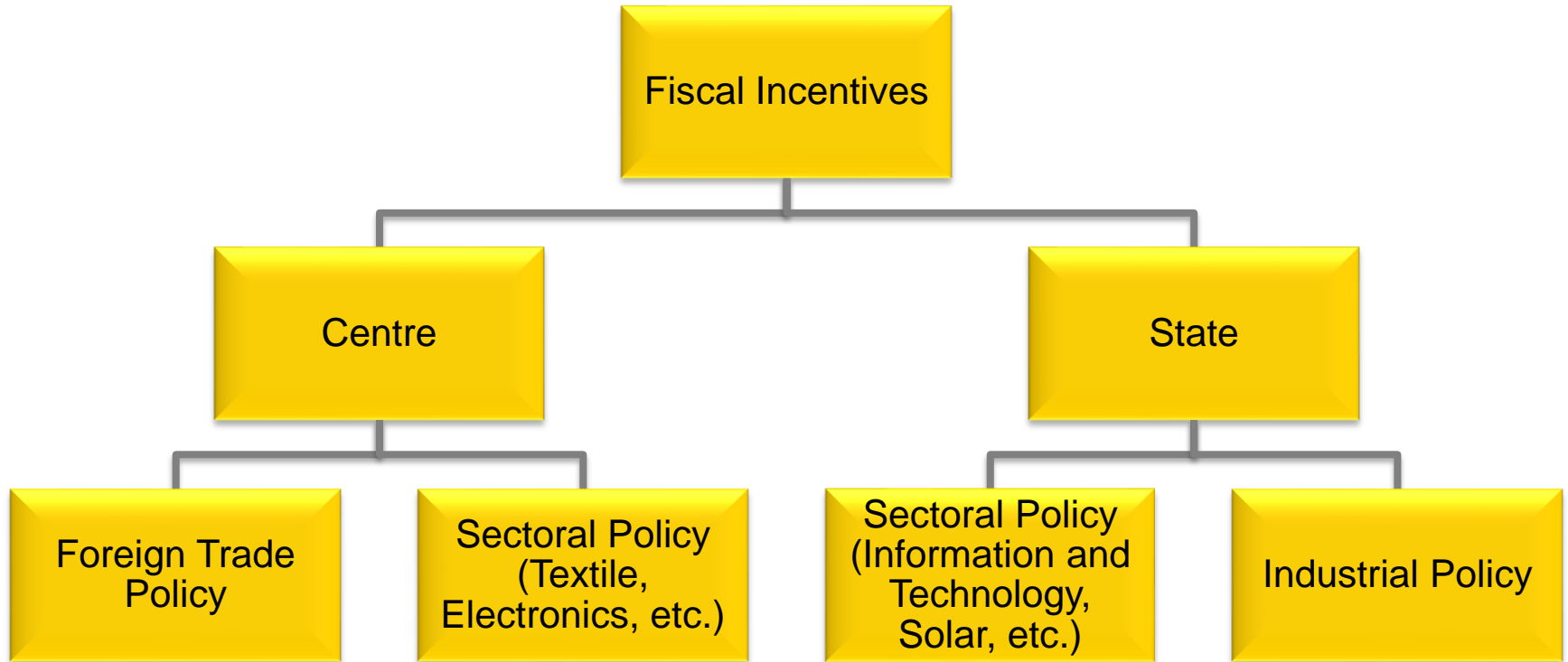
- ❖ CHANDIGARH
- ❖ MANIPUR
- ❖ MIZORAM
- ❖ NAGALAND
- ❖ PUDUCHERRY
- ❖ SIKKIM
- ❖ TRIPURA

With less than or
equal to 25
Percentile

Make in India

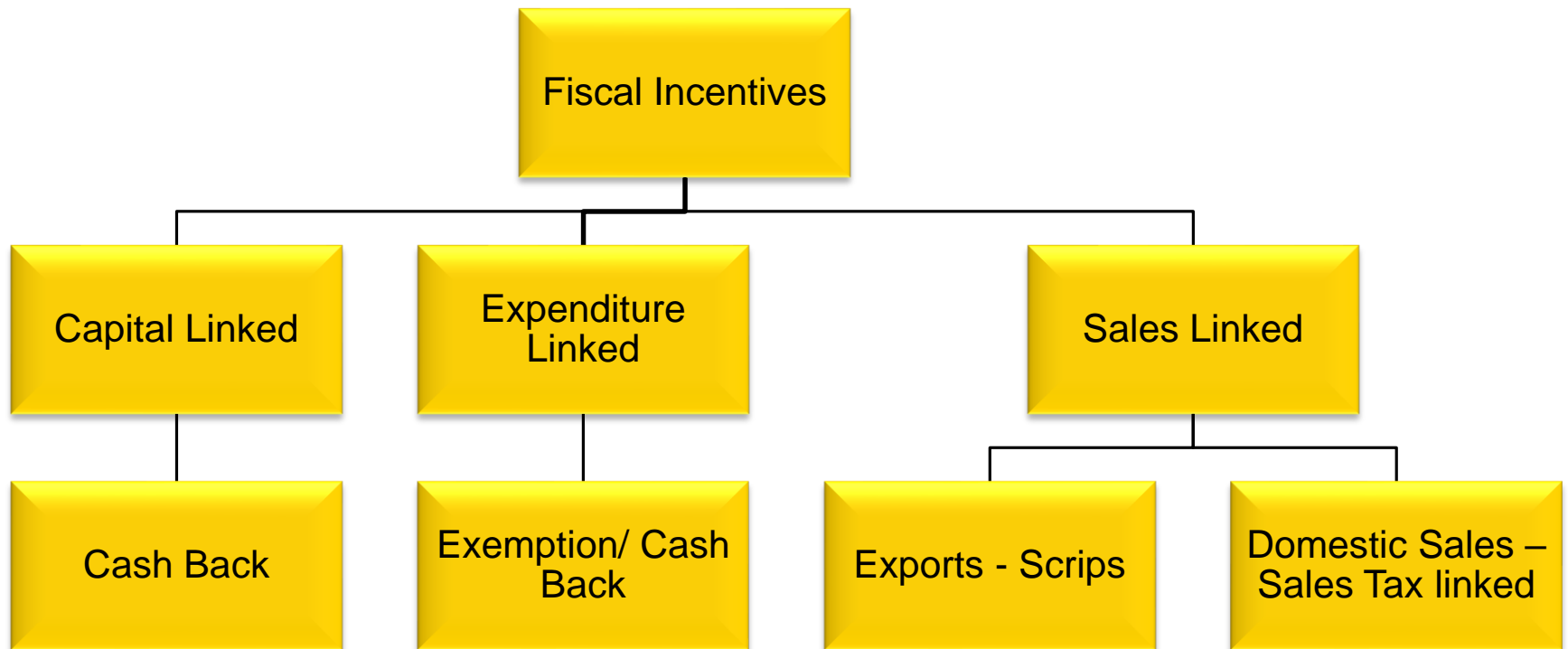


Fiscal incentives



Fiscal incentives

Based on nature





v/s



Global innovation index



Global innovation index

Pertinent to India, the following information has been extracted from the Global Innovation Index:

1. We stand at 52 rank out of 152 countries in the year 2019 as opposed to 57th rank in the year 2018
2. Highly scored in the following parameters:
 - a) ICT services exports
 - b) Graduates in science and engineering
 - c) Quality of universities
 - d) Gross Capital Formation (economy-wide investments measure)
 - e) Creative goods exports
3. Retains the top position within the Central and South Asia Region (followed by Iran and Kazakhstan)
4. Science & Technology clusters
5. Bengaluru, Mumbai and New Delhi
6. Maintained the momentum for outperforming on innovation relative to GDP for the 9th consecutive year
7. Currently, there are 25,739 DPIIT recognised startups in the DPIIT

Startup Index of Nations & Regions

Ranking of Countries on Share of Billion Dollar Startups (Unicorns)

Rank	Country	Share of Unicorns
1	United States	64.7%
2	China	13.8%
3	India	4.1%
4	United Kingdom	2.5%
5	Singapore	2.2%
6	Sweden	2.1%
7	Germany	2.0%
8	Canada	1.6%
9	South Korea	1.5%
10	Russia	1.0%

Reference: <https://www.marshall.usc.edu/faculty-research/centers-excellence/center-global-innovation/startup-index-nations-regions>

Best practices followed by other Countries

What is the distinguishing factor as compared to India?

Country	Reason
Unites States of America	<ul style="list-style-type: none">• Robust angel and venture funding• Best R&D
United Kingdom	<ul style="list-style-type: none">• Ease of incorporating a company; it can be done as fast as within an hour and will cost you £14 or about \$20 [approx.]• Various tax benefits
Canada	<ul style="list-style-type: none">• Unlimited access to world-class talent pools• Solid entrepreneurial culture• Reasonable rental market & a global network of clients.• Generous grants from the government & a startup friendly tax system.
New Zealand	<ul style="list-style-type: none">• Skilled labour force that is not too expensive• There are no payroll, capital gains or social security taxes involved• Incorporating a business takes a day while registering a property could take as little as two days• It also has a wealth of information readily available online through Statistics New Zealand that can help you run thorough research into whatever industry you would like to invest in.

What, Who and How of Startup in India



Startup in India

- ▶ Startup India is a flagship initiative of the Government of India, intended to build a strong ecosystem that is conducive for the growth of startup businesses, to drive sustainable economic growth and generate large scale employment opportunities.
- ▶ The Government through this initiative aims to empower startups to grow through innovation and design.
- ▶ For availing various benefits under the Startup India scheme, an entity would be required to be recognized by Department of Industrial Policy and Promotion (**DIPP**) as a startup by applying at <https://www.startupindia.gov.in/content/sih/en/startupgov/startup-recognition-page.html>.

Who can be a Startup?

1. If it is incorporated as a private limited company or registered as a partnership firm or a limited liability partnership in India
2. Up to ten years from the date of its incorporation/registration
3. If its turnover for any of the financial years since incorporation/registration has not exceeded INR 100 Crores
4. If it is working towards innovation, development or improvement of products or processes or services, or if it is a scalable business model with a high potential of employment generation or wealth creation

Note: An entity formed by splitting up or reconstruction of a business already in existence shall not be considered a 'startup'.

Startup registered on the startup India website vs DIPP recognized startups

- ▶ A startup which has a profile on the startup India website is considered a registered startup on the portal.
- ▶ These startups can apply for various acceleration, incubator/mentorship programmes and other challenges on the website along with getting an access to resources like Learning and Development Program, Government Schemes, State Polices for startups, and pro-bono services.
- ▶ For DIPP-recognition, the startups have to apply at <https://www.startupindia.gov.in/content/sih/en/startupgov/startup-recognition-page.html> to avail benefits mentioned in the above slides

Cities ahead in the startup venture in India



Cities ahead in the startup venture in India

01

Bengaluru

02

Delhi/NCR

03

Mumbai

04

Chennai

05

Hyderabad

06

Pune

07

Ahmedabad

08

Kochi

09

Kolkata

Startup India: Initiatives by Central Government



Benefits under Startup India Initiative

The benefits provided to recognized startups under the Startup India initiative are:

1. **Self-Certification:** Self-certify and comply under 3 Environmental & 6 Labour Laws
2. **Tax Exemption:** Income Tax exemption for a period of 3 consecutive years and exemption on capital and investments above Fair Market Value
3. **Easy Winding of Company:** In 90 days under Insolvency & Bankruptcy Code, 2016
4. **Startup Patent Application & IPR Protection:** Fast track patent application with up to 80% rebate in filling patents

Benefits under Startup India Initiative

5. **Easier Public Procurement Norms:** Exemption from requirement of earnest money deposit, prior turnover and experience requirements in government tenders
6. **SIDBI Fund of Funds:** Funds for investment into startups through Alternate Investment Funds
7. **Apply for tenders:** Startups can apply for government tenders. They are exempted from the “prior experience/turnover” criteria applicable for normal companies answering to government tenders.
8. **R&D facilities:** Seven new Research Parks will be set up to provide facilities to startups in the R&D sector

Benefits under Startup India Initiative

9. **No time-consuming compliances:** Various compliances have been simplified for startups to save time and money. Startups shall be allowed to self-certify compliance (through the Startup mobile app) with 9 labour and 3 environment laws
10. **Tax saving for investors:** People investing their capital gains in the venture funds setup by government will get exemption from capital gains. This will help startups to attract more investors.
11. **Choose your investor:** After this plan, the startups will have an option to choose between the VCs, giving them the liberty to choose their investors.
12. **Meet other entrepreneurs:** Government has proposed to hold 2 startup fests annually both nationally and internationally to enable the various stakeholders of a startup to meet. This will provide huge networking opportunities.

Benefits granted by State Governments:



A hand is shown in silhouette on the right side of the image, reaching towards a series of glowing, wavy light trails in shades of blue and purple. The background is dark, and the light trails create a sense of movement and energy. A yellow rectangular box is overlaid on the left side of the image, containing the text.

Benefits under Maharashtra State Innovate Startup Policy, 2018

Definition of a Startup

Eligibility Criteria



Incorporated as either a private limited company, a partnership firm or a limited liability partnership in Maharashtra, as per the prevalent norms for registration



Operational for not more than seven years from the date of its incorporation or registration, which is extended to 10 years for units in the biotechnology and social sectors



Reporting an annual turnover of at most INR 25 Crores since its incorporation or registration



The unit should either strive towards innovation, development or improvement of products, processes or services; OR be a scalable business model with strong potential for high employment generation or wealth creation

Notes

- ▶ The aforementioned criteria have been defined under the Startup India: Action Plan by the Government of India
- ▶ Units in the social sector include, but are not limited to, Education, Skill Development, Healthcare, Clean Energy, Water Sanitation & Conservation, Waste Management, Agricultural, Food Security and Financial Inclusion
- ▶ Entities formed by the split-up or reconstruction of an existent business unit are ineligible under the Policy

Incentives offered

Sr. No.	Particulars	Additional details
1	SGST reimbursement	<ul style="list-style-type: none"> ▶ 100% reimbursement of Net SGST subject to the condition that input credit for the same is not available to the customers
2	Stamp Duty and Registration Fees reimbursement	<ul style="list-style-type: none"> ▶ 100% reimbursement for first 3 years ▶ 50% reimbursement for subsequent 3 years ▶ Aggregation of business places supplied by private places through a common platform may also be permitted
3	Quality Testing assistance	<ul style="list-style-type: none"> ▶ Assistance of 80% of quality testing costs incurred by startups at BIS-accredited facilities
4	Patent filing assistance	<ul style="list-style-type: none"> ▶ 80% rebate in filing costs ▶ Up to INR 2 Lakh for Indian patents and up to INR 10 Lakhs for international patents
5	Other incentives	<ul style="list-style-type: none"> ▶ Self certification for select compliances and norms, with exemption from inspections for 7 years ▶ Relaxation from norms under Maharashtra Shops and Establishments Act ▶ Startups in the manufacturing sector are exempt from the “prior experience and/or turnover” criteria, subject to specified conditions

Additional non-fiscal benefits and initiatives

Access to Leapfrog Maharashtra Portal

- ▶ The portal will serve as a communication hub and a single window clearance facilitator
- ▶ Serves as the nucleus for the State's startup hub for enabling effective knowledge exchange
- ▶ Clearances and approvals can also be obtained efficiently
- ▶ The portal launch date is awaited from authorities

Designation of Innovation Clusters

- ▶ Mumbai – Fintech and AVGC
- ▶ Pune – Automotive and Electronics
- ▶ Nashik – Healthcare
- ▶ Aurangabad – Agro-process
- ▶ Nagpur – Clean Energy

Institution of Incubators and Parks

- ▶ The State will encourage the development of incubators through Private, Public or Private-Public Partnership (PPP) methods, in collaboration with the private sector and educational and R&D institutions
- ▶ A multi-facility Startup Park has been proposed in order to consolidate incubators, accelerators, investors, mentors and other stakeholders in one location

Additional non-fiscal benefits and initiatives

State-sponsored Funds

- ▶ Fund-of-funds with an initial corpus of INR 100 Crore and a total corpus of INR 500 Crore
- ▶ Infrastructure fund for incubators, accelerators and other labs
- ▶ Encouragement of CSR funds and an Alternative Investment Market
- ▶ The State will support units in the social sector through crowdfunding platforms

State Sponsored Events

- ▶ Startup Week
- ▶ Grand Challenges
- ▶ B-Plan Competitions
- ▶ Startup Symposia
- ▶ Get-togethers

Development of Human Capital

- ▶ Organization of workshops and programmes in schools and universities
- ▶ Designation of community builders and role models
- ▶ Setup of TEDCs
- ▶ Institution of EdTech platforms

Maharashtra – Incentives available in the FinTech sector



Definition of a FinTech Startup

- ▶ As per the Government Resolution (GR) entitled Setting up of Global Fintech Hub and implementation of Fintech policy,
“FinTech startups are establishments that use technology and innovative business models in delivering of financial products and services and having annual turnover up to (INR) 25 Crores”
- ▶ Additionally, startups in the FinTech sector must have a registered office in the State of Maharashtra
- ▶ Incentives granted to FinTech startups are over and above the benefits provided under the Maharashtra Start up and Innovation Policy, 2018
- ▶ The Policy also seeks to provide an impetus for the set up of a Global Fintech hub and Smart Fintech centres
- ▶ Units established as part of Smart FinTech centres are entitled to the same incentives which are granted to IT/ITES units under the Maharashtra IT/ITES Policy, 2015. Additional information on Smart FinTech centre benefits are provided in the ensuing slides

A close-up photograph of a 3D printer's nozzle printing a vase. The vase is multi-colored, with a blue base, a light green middle section, and an orange top section. The printer's mechanical components, including the nozzle and various wires, are visible above the vase. The background is a blurred industrial setting with blue lighting. A yellow rectangular overlay is positioned on the left side of the image, containing the text.

Incentives granted to Fintech units

Incentives offered Fintech units

Sr. No.	Particulars	Additional details
1	Internet and electricity charges reimbursement ¹	<ul style="list-style-type: none"> ▶ 100% reimbursement up to INR 3 Lakhs per annum for 3 years ▶ The reimbursement is over and above the incentives provided under the prevailing State IT/ITES Policy
2	Reimbursement of expenditure towards hosting infrastructure ¹	<ul style="list-style-type: none"> ▶ 100% reimbursement capped at INR 3 Lakhs per year for 3 years ▶ The assistance is provided for cloud space that is maintained, operated and managed by a cloud storage service provider, subject to additional criteria ▶ The cloud service providers must be empanelled as per the cloud policy issued under DIT GR dated 19 January 2018 with rates finalized by DIT
3	SGST reimbursement ¹	<ul style="list-style-type: none"> ▶ 100% reimbursement capped at INR 4 Lakhs per annum for up to 3 years ▶ Applicable for early stage startups with annual turnover of INR 5 Crores
4	Reimbursement of exhibition/global event participation fee ¹	<ul style="list-style-type: none"> ▶ 50% reimbursement subject to a ceiling of INR 5 Lakhs per unit ▶ Limited to two events
5	Stamp Duty and Registration Fees reimbursement ²	<ul style="list-style-type: none"> ▶ 100% reimbursement for first 3 years ▶ 50% reimbursement for subsequent 3 years ▶ Aggregation of business places supplied by private places through a common platform may also be permitted
6	Quality Testing assistance ²	<ul style="list-style-type: none"> ▶ Assistance of 80% of quality testing costs incurred by startups at BIS-accredited facilities
7	Patent filing assistance ²	<ul style="list-style-type: none"> ▶ 80% rebate in filing costs ▶ Up to INR 2 Lakh for Indian patents and up to INR 10 Lakhs for international patents

1. Incentives offered under the Fintech GR

2. Incentives offered under the Maharashtra State Innovative startup Policy 2018, which are granted over and above the benefits under the Fintech GR

Gujarat Scheme For Assistance Of Startups / Innovation, 2015



Gujarat Scheme for Assistance of Startups / Innovation, 2015

Introduction

Policy Title & Eligible Entities

- ▶ Gujarat Scheme for Assistance for Start ups/Innovation, 2015 – 2020
- ▶ Individuals with an innovate idea or universities, educational institutions, incubation centres, R&D institutions, Public Sector Units (PSUs) and private establishments that support and mentor innovators are eligible

Criteria for Recognition as Eligible Startup Unit [a]

- ▶ Incorporated as a Private Limited Company, Partnership or Limited Liability Partnership for not more than 10 years from the date of registration/incorporation
- ▶ Maximum annual turnover of INR 100 Crore since incorporation

Criteria for Recognition as Eligible Startup Unit [a]

- ▶ The Unit is working towards innovation, development or improvement of products, processes or services **[OR]**
- ▶ A scalable business model with a high potential of employment generation or wealth creation
- ▶ Units formed through a split up or reconstruction of an existing entity are ineligible

Definition of Innovative Project

- ▶ “Innovation is the process of introducing new or making changes with updated technology, large and small, radical and incremental, to products, processes, and services that results in the introduction of something new and innovative products”

Gujarat Scheme for Assistance of Startups / Innovation, 2015

A. Assistance for Innovation

Sr. No.	Particulars	Incentive Amount
1	Sustenance allowance for innovator	INR 10,000 per month for 1 year
2	Assistance for mentoring services	Up to INR 5 Lakh
3	Assistance for procuring raw material and other components pertinent to the innovative process	Up to INR 10 Lakh

B. Assistance once idea is conceptualized

Sr. No.	Particulars	Incentive Amount
1	Net VAT/SGST Reimbursement	80% for 5 years up to 70% of eligible fixed capital investment*
2	Marketing and Publicity Assistance for introduction of product to the market	Up to INR 10 Lakh

*Computation of Net VAT/SGST will exclude the additional tax payment and reduction in Input tax credit, if any

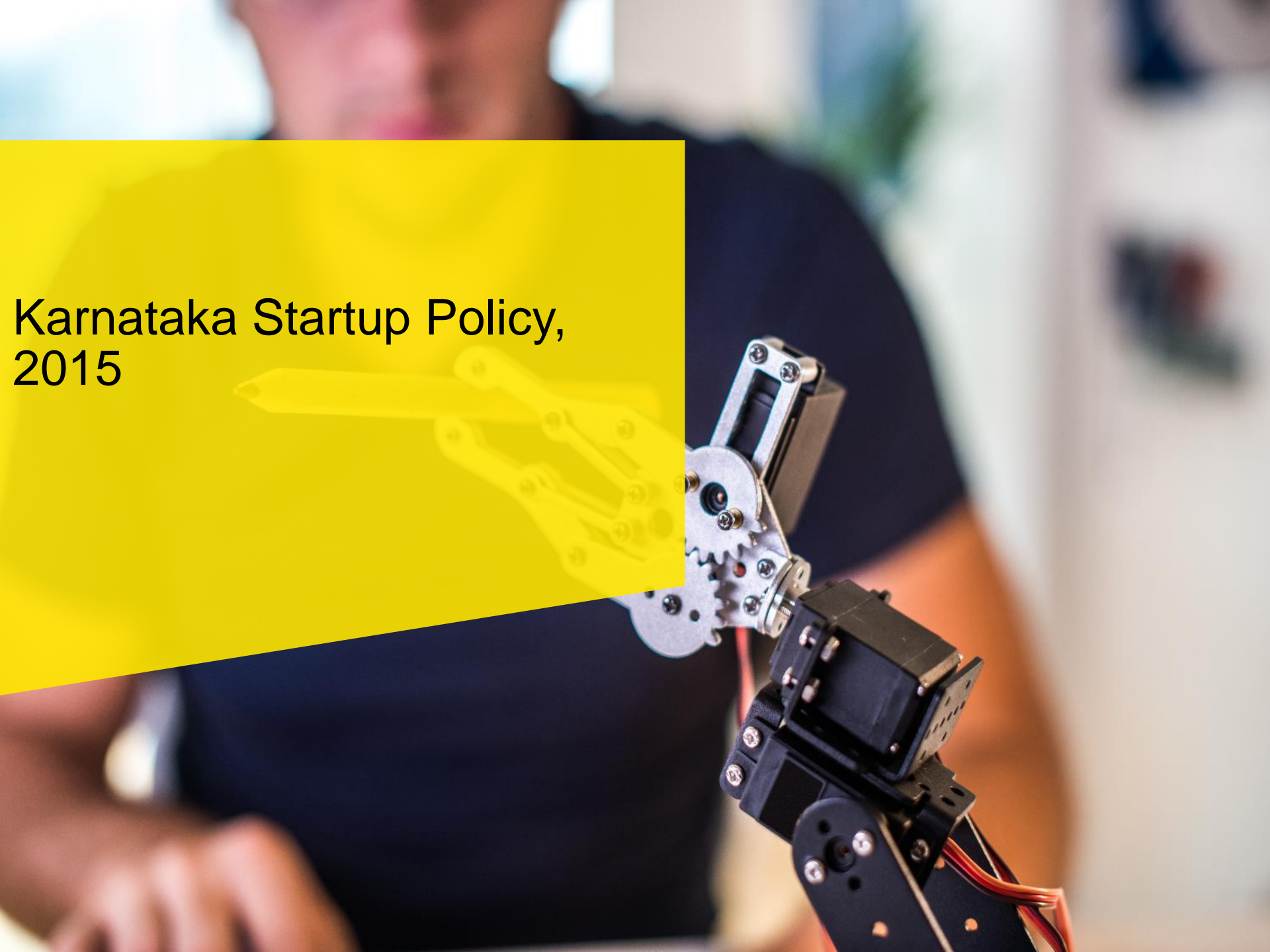
Additional benefits include

Provision of mentor services

Permission for the innovator to utilise the facilities in the eligible institution

Select innovators will receive free access to institutions that include university libraries, government laboratories, Centres of Excellence and PSUs

Karnataka Startup Policy, 2015



Karnataka Startup Policy, 2015

Introduction

Policy Title & Validity Period

- ▶ Karnataka Startup Policy, 2015 – 2020
- ▶ Valid for 5 years or until the issuance of a replacement Policy

Eligibility of Units

- ▶ The Policy is only applicable to **technology based**, startup units
- ▶ Additional criteria pertaining to the unit's tenure, location, employment and exit clause have been outlined in the ensuing slide

Benefits Available

- ▶ Startup Units are eligible for incentives provided under various sector specific policies issued by the State of Karnataka, which include the State Industrial Policy and the Karnataka i4 Policy
- ▶ Additional benefits are also provided under the startup Policy

Key Non-Fiscal Incentives

- ▶ Setting up incubators such as the New Age Incubation Network (NAIN) and Technology Business Incubators (TBIs)
- ▶ Early stage funding for promising ventures
- ▶ Creation of fund-of-funds for investments in venture funds
- ▶ Establishment of Common Instrumentation Facilities (CIFs) for public use

Karnataka Startup Policy, 2015

Definition of a Startup

Eligible Units

- ▶ **Nature:** The startup unit must be **technology based**, which means it must fulfil either of the following:
 - ▶ Create a technology based product or service
 - ▶ Use technology for enhancing the functionality or reach of an existing product or service
- ▶ **Tenure:** The unit should not have been registered or incorporated for more than four years prior to submission of any incentive application. The limit has been extended to 7 years for entities in the Biotechnology sector
- ▶ **Location:** The entity must be registered in Karnataka under the Karnataka Shops and Commercial Establishment Act, 1961
- ▶ **Employment:** At least 50% of the total workforce (except contract employees) must be hired from Karnataka
- ▶ **Exit Clause:** the unit becomes ineligible for availing benefits after earning a revenue of INR 50 Crore

Ineligible Units

- ▶ Units formed by the demerger or reconstitution of a business currently in existence
- ▶ A subsidiary of a firm in the State
 - ▶ except for the subsidiary of a startup that is qualified as a startup whether by itself or as a combined entity
- ▶ A merged entity within the State, with the exception of a combined entity that fulfils the aforementioned criteria
- ▶ A franchisee of an existing business in the State
- ▶ Units promoted by, sponsored by, or related to an industrial group in the State whose group turnover exceeds INR 300 Crore
- ▶ A holding company should not derive more than 50% of its income from investments and loans

Karnataka Startup Policy, 2015

Incentives

Sr. No.	Particulars	Incentive Amount
1	Reimbursement of Net VAT/ SGST (paid by incubated startup company)	100% reimbursement capped at INR 50 Lakh or upto 3 years
2	Reimbursement of VAT/ SGST (on goods supplied to the incubator or incubatee)	100% reimbursement
3	Service Tax reimbursement (levied to startups incubated in State incubators and CIFs; annual turnover not to exceed INR 50 lakh)	100% reimbursement

Challenges faced by a Startup



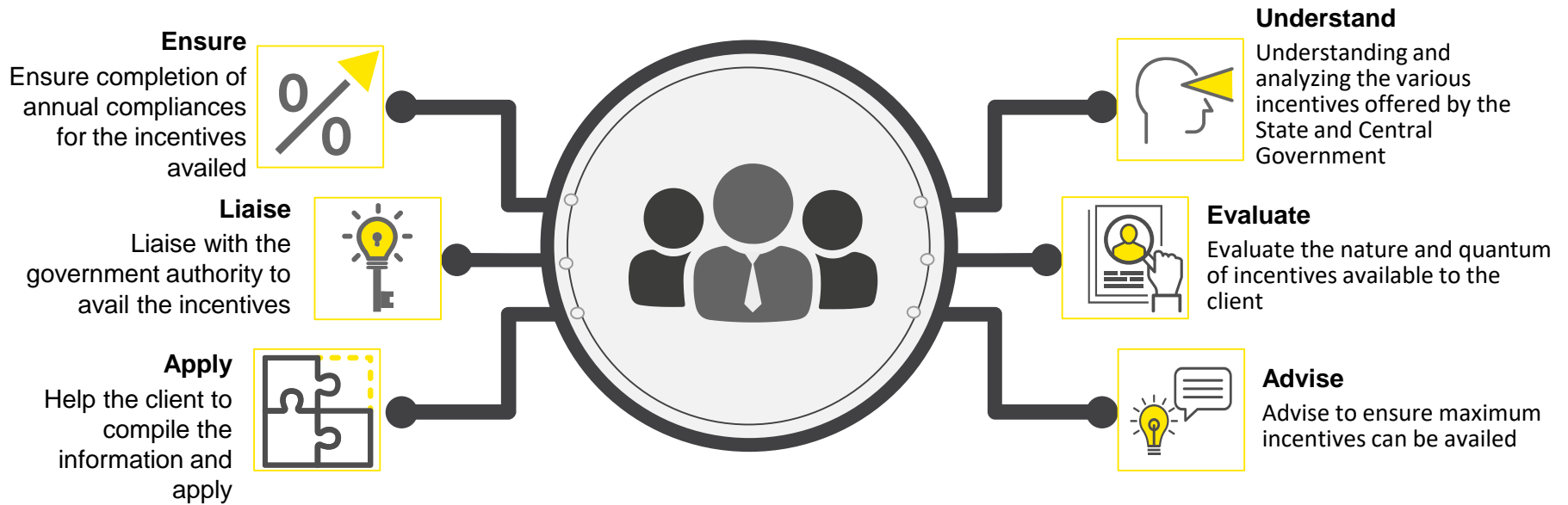
Challenges

1. Subsidiary entities may not be able to obtain startup recognition;
2. Innovation is not a measured criteria;
3. People generally believe startups are just about thinking about a new idea or plan. But in reality, execution of such plan is more necessary than just thinking about it;
4. The view or perspective of the government on startup India plan is quite short-term in nature. It does not look at the long-term path of the startups;
5. For the success of any new business, competent workforce is necessary. But in case of startups, skilled workforce is not possible due to the lack of funds at the initial phase;
6. The risk of reaching failure is greater in the startups as compared to other organizations. It is because they tend to take steps quite fast;
7. Co-ordination between Departments;
8. Best international practice;
9. Attitude towards failure

Role of a CA



Role of a CA





Questions please?

