Government of India

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Start-up Action Plan and Benefits

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Introduction

Start-up India is a flagship initiative of the Government of India, intended to build a strong eco-system for nurturing innovation and Start-ups in the country that will drive sustainable economic growth and generate large scale employment opportunities. The government has announced the Action plan which takes care of all aspects of start-ups. The plan also focuses on all the different sectors. The Action Plan is divided across the following areas:

- Simplification and Handholding
- Funding Support and Incentives
- Industry-Academia Partnership and Incubation

Definition of Start-up (for Eligibility for Startup Policy)

- Start-up means 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 of 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.
- Provided also that an entity shall cease to be a Start-up if its turnover for the previous financial years has exceeded INR 25 crore or it has completed 5 years from the date of incorporation/ registration.
- Provided further that a Start-up shall be eligible for tax benefits only after it has obtained certification from the Inter-Ministerial Board, setup for such purpose.

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Plans and Initiatives of the Scheme

A. Initiatives directly supporting the start-ups

a) Simplification and handholding

a. Compliance Regime based on Self-Certification

Reduces the regulatory burden on Start-ups thereby allowing them to focus on their core business and keep compliance cost low.

b. Start-up India Hub

To create a single point of contact for the entire Start-up ecosystem and enable knowledge exchange and access to funding. Due to the increasing number of start-ups and entrepreneurs, not everyone reaches their full potential levels due to limited guidance or resources. The "Start-up India Hub" will be a key stakeholder in this vibrant ecosystem and will:

- 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
- Assist Start-ups through their lifecycle with specific focus on important aspects like obtaining financing, feasibility testing, business structuring advisory, enhancement of marketing skills, technology commercialization and management evaluation
- Organize mentorship programs in collaboration with government organizations, incubation centers, educational institutions and private organizations who aspire to foster innovation.

c. Rolling-out of Mobile App and Portal

To serve as the single platform for Start-ups for interacting with Government and Regulatory Institutions for all business needs and information exchange among various stakeholders. The app is for making easy and convenient various processes for the start-ups like registration, applying for schemes, etc.

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d. Legal Support and Fast-tracking Patent Examination at Lower Costs

To promote awareness and adoption of IPRs by Start-ups and facilitate them in protecting and commercializing the IPRs by providing access to high quality Intellectual Property services and resources, including fast-track examination of patent applications and rebate in fees

e. Relaxed Norms of Public Procurement for Start-ups

As Start-ups are normally Micro and Small Enterprises which do not have a track record they may not be able to meet the qualification criteria relating to prior experience and turnover. Hence the norms are relaxed to provide an equal platform to Start-ups (in the manufacturing sector) vis-à-vis the experienced entrepreneurs/ companies in public procurement.

f. Faster Exit for Start-ups

With the nature of start-ups, there is a high rate of failure. This makes it easier for start-ups to wind up operations and exit the markets.

B. Initiatives strengthening the Incubation system

a) Organizing Start-up Fests for Showcasing Innovation and Providing a Collaboration Platform

b) Launch of Atal Innovation Mission (AIM) with Self-Employment and Talent Utilization (SETU) Program

- The Atal Innovation Mission (AIM) shall have two core functions: Entrepreneurship promotion through Self-Employment and Talent Utilization (SETU), wherein innovators would be supported and mentored to become successful entrepreneurs
- Innovation promotion: to provide a platform where innovative ideas are generated

c) Harnessing Private Sector Expertise for Incubator Setup

d) Building Innovation Centres at National Institutes

e) Setting up of 7 New Research Parks Modelled on the Research Park Setup at IIT Madras

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f) **Promoting Start-ups in the Biotechnology Sector**

g) **Launching of Innovation Focused Programs for Students**

h) **Annual Incubator Grand Challenge**

Funding Support to Start-ups

a) **Providing Funding Support through a Fund of Funds with a Corpus of INR 10,000 crore**

In order to provide funding support to Start-ups, Government will 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 will be in the nature of Fund of Funds, which means that it will not invest directly into Start-ups, but shall participate in the capital of SEBI registered Venture Funds. The Fund shall ensure support to a broad mix of sectors such as manufacturing, agriculture, health, education, etc.

b) **Credit Guarantee Fund for Start-ups**

Credit guarantee mechanism through National Credit Guarantee Trust Company (NCGTC)/ SIDBI is being envisaged with a budgetary Corpus of INR 500 crore per year for the next four years.

Concession and Incentives

a) **Tax Exemption on Capital Gains**

To promote investments into Start-ups by mobilizing the capital gains arising from sale of capital assets

b) **Tax Exemption to Start-ups for 3 years**

To promote the growth of Start-ups and address working capital requirements. The profits of Start-up initiatives are exempted from income-tax for a period of 3 years.

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c) **Tax Exemption on Investments above Fair Market Value**

Under The Income Tax Act, 1961, where a Start-up (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.

In the context of Start-ups, where the idea is at a conceptualization or development stage, it is often difficult to determine the FMV of such shares. In majority of the cases, FMV is also significantly lower than the value at which the capital investment is made. This results into the tax being levied under section 56(2) (viib).

Currently, investment by venture capital funds in Start-ups is exempted from operations of this provision. The same shall be extended to investment made by incubators in the Start-ups

Eligibility criteria for an Incubator

An incubator must be a registered entity falling under one of the following categories:

- Society (under The Societies Registration Act, 1860)
- Section 8 Company (under The Companies Act, 2013)
- Private Limited Company (under The Companies Act, 2013)
- Public Company (under The Companies Act, 2013)
- Limited Liability Partnership (under The Limited Liability Partnership Act, 2008)

Other Criteria

An incubator shall be required to meet the following 4 criteria in order to be awarded a certificate of recognition from Government of India. The key parameters along with the benchmark set for selection are as follows:

Sr. No.	Parameter	Benchmark
1	Number of years of establishment	The Incubator should be in existence for at least the last 2 years. This benchmark of existence for at least 2 year shall not be applicable for incubators which have received a sanction letter*[1] by the Central/ State Government
2 A	Number of incubatees currently enrolled	The incubator should have a minimum of 20 incubatees graduated*[2] or on rolls at present i.e. at the time of filling of application. For

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Sr. No.	Parameter	Benchmark
2 B	Number of incubatees graduated	incubators which have received a sanction letter*[1] by the Central/State Government a minimum of 5 incubatees should have graduated*[2] or on rolls at present i.e. at the time of filling of application
3	Availability of Infrastructure	The incubator should have a minimum of 5000 sq. feet of carpet area dedicated to the incubatees
4	Contact period of engagement	The incubator should facilitate at least 3 months of in person or virtual interactions between its incubatees and mentors

The certificate of recognition shall be valid for a definite period of time which would be two (2) years from the date of grant of recognition. In case, an incubator fails to justify its roles and responsibilities or if found to be misrepresenting any information, the recognition status of the incubator shall be revoked, However, previous recommendations from the incubator to the Start-ups shall still remain valid.

A recognized incubator shall be evaluated on the following parameters after 6 months of obtaining the certificate of recognition. The certificate of recognition shall be reconsidered in case the recognized incubator is found wanting on fulfillment of the following stated parameters:

Sr. No.	Parameter
1	Incubator engagement with Venture Capital Funds/ Alternate Investment Funds *For the purpose of this parameter, the number of tie-ups between the Incubator and Venture Capital Fund and Alternate Investment Fund shall be considered.*
2	Incubator engagement with Corporates *For the purpose of this parameter, the number of tie-ups between the Incubator and Corporate Organizations to provide industry exposure to the Incubatees shall be considered.*
3	Number of mentors associated with the Incubator *For the purpose of this parameter, the number of mentors providing in person or virtual mentorship to the Incubatees shall be considered.*
4	Number of outreach programmes*[3] conducted by the Incubator *For the purpose of this parameter, the number of outreach programmes conducted in the previous one year shall be considered.*

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Foot Notes

**1 Sanction letter is issued by a government (Central/State) entity to an incubator mentioning the quantum of amount sanctioned as well as the staging of the release based on the sanction amount. An incubator is expected to be in line with the sanctioned proposal and tailored activities to attain the projected milestones.*

**2 Graduated: This implies that the students enrolled have successfully completed their programme and have at least prototyped their product/service and have or are ready for commercialization of their product/service.*

**3 Outreach Programmes: This implies the number of sessions conducted in order to promote enrollments by students in the incubation programme.*

Source- http://start-upindia.gov.in/actionplan.php

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