

# Govt plans fresh set of tax sops for startups in budget

## Wants To Promote Entrepreneurship And Employment

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**New Delhi:**

The government is looking at a fresh set of tax benefits for startups to boost entrepreneurship and employment in the economy.

The department for promotion of industry and internal trade (DPIIT) and the revenue department have discussed a package of tax sops in the forthcoming budget, including simplified norms for levying a tax on employee stock option schemes (ESOPs) at the time of sale of shares, sources told **TOI**.

Currently, ESOPs are taxed at a time when an employee exercises the option and a tax on perquisites is levied between the exercise price and the fair market value at that time. Then, there is a capital gains tax when the employee finally sells the share. For long, startups have argued that ESOPs are an important tool for employee retention and often taxing them is not feasible.

Besides, DPIIT is discussing the possibility of giving angel tax benefits to Category II alternate investment funds (AIFs), a concession that is currently available to certain Category I investors.

The department is seeking other benefits for AIFs to provide a thrust to fund startups. For instance, it has suggested that, just like profit of AIFs is a passthrough for limited partners, the loss should also get the same treatment.

Similarly, there is a proposal for a GST exemption for fund managers based in India as the levy does not apply to those offshore. But this proposal is unlikely to be accepted and in any case GST-related issues are now outside the ambit of the budget.

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> Category I AIFs (alternate investment funds) mainly invest in startups, SMEs or any other sector that the government considers economically and socially viable

> Category II includes PE funds or debt funds, for which no specific incentives or concessions are given by the government or other regulators. Concessions



for Category I AIFs came as part of a push to widen the investor base

> There are other benefits related to AIFs too that have been proposed by DPIIT (department for promotion of industry and internal trade), which is responsible for the policy on startups that was a

key theme of PM Narendra Modi's focus areas during his first term