



Global Business Tax Alert

Harmonizing global & local perspectives

CBDT provides relief to investments in 'startup' companies – no tax on startup companies issuing shares above fair market value

Issue no: GBTA/30/2016

In this issue

Background
Impact on Start-ups
Comments
Do you know about Dbriefs?
Contacts

Background

- Section 56(2)(viib) of the Income-tax Act, 1961 (“the Act”) was introduced by the Finance Act, 2012, as an anti-abuse provision, which taxes monies received while issuing shares, in excess of fair market value of the shares.
- This provision is applicable only to a company other than a company in which public are substantially interested (commonly referred to as ‘closely held companies’) and taxes the excess consideration (over and above the fair market value) in the hands of the issuing company as ‘Income from other sources’.
- However, section 56(2)(viib) of the Act is not applicable where the consideration for issue of shares is received – (i) by a venture capital undertaking from a venture capital company or a venture capital fund; or (ii) by a company from a class or classes of persons as may be notified by the Central Government in this behalf.

Impact on Start-ups

1. The Central Government has vide Notification no. 45/2016 dated June 14, 2016 notified the ‘classes of persons’ as provided under clause (ii) of the proviso to section 56(2)(viib) of the Act.
2. The ‘classes of persons’ would include ‘person’ defined under section 2(31) of the Act, being resident, who make any consideration exceeding the face value for issue of shares of a ‘startup company’.
3. In other words, a ‘startup’ company receiving monies as consideration for issue of shares in excess of fair market value would not be covered under the provisions of section 56(2)(viib) of the Act.
4. The term ‘startup’ has been defined to mean a closely held company which fulfills the condition specified in the notification issued by the Ministry of Commerce and Industry, Department of Industrial Policy and Promotion (‘DIPP’), number G.S.R.I 80(E) dated February 17, 2016 (published on February 18, 2016).

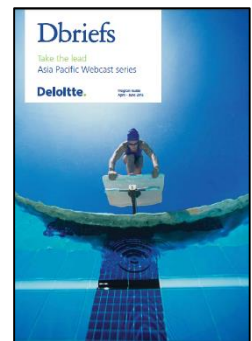
Comments

The Government has again taken a welcome step towards the 'Startup Initiative' announced by it. This would also put to rest the recent controversy wherein certain reports suggested that the tax department was contemplating a move to impose tax on those startups who had received funds in excess of fair market value of their shares. However, this benefit has only been extended to 'Startups' as defined in the aforementioned notification of DIPP, which are entities having turnover not exceeding INR 25 crores, has been in operation for not more than 5 years, etc.

Do you know about Dbriefs?

Dbriefs are live webcasts that give valuable insights on important developments affecting your business. To register, visit the [Dbriefs](#) page.

Download report



Contacts

Ahmedabad

19th Floor, Shapath –V
S.G.Highway
Ahmedabad-380015
Gujarat-India
Tel: + 91 (079) 66827300
Fax: + 91 (079) 66827400

Coimbatore

Shanmugha Manram
41, Race Course,
Coimbatore
Tamil Nadu - 641018
Tel: + 91 (0422) 439 2801
Fax: +91 (0422) 222 3615

Kolkata

Bengal Intelligent Park Building Alpha,
1st floor, Block EP and GP Sector V, Salt
Lake Electronics Complex,
Kolkata - 700 091.
Tel : + 91 (033) 6612 1000
Fax : + 91 (033) 6612 1001

Bangalore

Deloitte Centre, Anchorage II,
100/2, Richmond Road,
Bangalore 560 025.
Tel: +91 (080) 6627 6000
Fax: +91 (080) 6627 6010

Delhi/Gurgaon

Building 10,
Tower B, 7th Floor,
DLF Cyber City,
Gurgaon 122 002
Tel : +91 (0124) 679 2000
Fax : + 91 (0124) 679 2012

Mumbai

Indiabulls Finance Centre,
Tower 3, 28th Floor,
Elphinstone Mill Compound,
Senapati Bapat Marg, Elphinstone (W),
Mumbai – 400013
Tel: + 91 (022) 6185 4000
Fax: + 91 (022) 6185 4101

Chennai

No.52, Venkatanarayana Road,
7th Floor, ASV N Ramana Tower,
T-Nagar,
Chennai 600 017.
Tel: +91 (044) 6688 5000
Fax: +91 (044) 6688 5050

Hyderabad

1-8-384 and 385, 3rd Floor,
Gowra Grand S.P.Road,
Begumpet,
Secunderabad – 500 003.
Tel: +91 (040) 6603 2600
Fax: +91 (040) 6603 2714

Pune

106, B-Wing, 7th Floor,
ICC Trade Tower,
Senapati Bapat Road,
Pune – 411 016.
Tel: + 91 (020) 6624 4600
Fax: +91 (020) 6624 4605

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see www.deloitte.com/about for a more detailed description of DTTL and its member firms.

This material and the information contained herein prepared by Deloitte Touche Tohmatsu India LLP (DTTI LLP) is intended to provide general information on a particular subject or subjects and is not an exhaustive treatment of such subject(s). This material contains information sourced from third party sites (external sites). DTTI LLP is not responsible for any loss whatsoever caused due to reliance placed on information sourced from such external sites. None of DTTI LLP, Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the "Deloitte Network") is, by means of this material, rendering professional advice or services. This information is not intended to be relied upon as the sole basis for any decision which may affect you or your business. Before making any decision or taking any action that might affect your personal finances or business, you should consult a qualified professional adviser.

No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this material.

©2016 Deloitte Touche Tohmatsu India LLP. Member of Deloitte Touche Tohmatsu Limited

Registered office: 12, Dr. Annie Besant Road, Opp. Shiv Sagar Estate, Worli, Mumbai – 400 018, India. Deloitte Touche Tohmatsu India Private Limited (U74140MH1995PTC093339), a private company limited by shares, was converted into Deloitte Touche Tohmatsu India LLP (LLP Identification No. AAE- 8458), a limited liability partnership, with effect from October 1, 2015.

[Home](#) | [Add Deloitte as a safe sender](#)

Follow us on:

