

BUDGET REVIEW 2022

Startups | Founders | Investors

February 01, 2022

AGENDA

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INTRODUCTION

With India's economic growth estimated at 9.2% this year, the Hon'ble Finance Minister has sought to lay the foundation and give a blueprint to steer the economy over the *Amrit Kaal* for India for the next 25 years –India at 75 to India at 100.

The Budget has laid a blueprint for the Amrit Kaal, which is futuristic and inclusive and includes big public investment for modern infrastructure. The Government has also laid emphasis on: (1) PM Gati Shakti (2) Inclusive Development (3) Productivity Enhancement & Investment, Sunrise Opportunities, Energy Transition, and Climate Action (4) Financing of Investments.

The Hon'ble Finance minister has also introduced various new policies for startups and incentives for investors investing in startups which provides a big boost to the entrepreneurship wave in the country.

In this deck, we have provided a summary of key proposals for startups, its founders / team and for investors in the startup ecosystem.

FOR STARTUPS

POLICY ANNOUNCEMENTS

- **Electric Vehicles (EV)** - Special mobility zones to be developed for EV; New battery swapping policy to be formulated
- Startups to be promoted to facilitate '**Drone Shakti**' through varied applications and for Drone-As-A-Service (DrAAS)
- **Defence R&D** to be opened up for industry, startups and academia with 25% of defence R&D budget earmarked
- A co-investment fund to be facilitated through NABARD for financing **startups for agriculture & rural enterprise**
- Centre for Processing Accelerated Corporate Exit (C-PACE) to be established for facilitating and speeding up **voluntary winding-up** to less than 6 months
- **Ease of doing business 2.0** to be launched
- Use of economical and user friendly **payment platforms** to be promoted
- **Digital Rupee** to be issued by RBI starting FY 2022-23 using block chain and other technologies
- **Thematic funds** (Climate Action, Deep-Tech, Digital Economy, Pharma and Agri-Tech) for blended finance with 20% government share and management by private fund managers to be introduced

FOR STARTUPS

TAX ANNOUNCEMENTS

- Tax holiday for eligible startups extended to startups incorporated till March 31, 2023 *[section 80-IAC]* . Also reduced tax rate of 15% for manufacturing companies extended to companies having date of commencement of manufacturing or production till March 31, 2024 *[section 115BAB]*
- 10% TDS introduced on any benefit or perquisite (convertible into money or not) provided to a resident arising from such person's business or profession *[section 194R]*

IMPACT

- Allows eligible startups and manufacturing companies which faced delay in setting up due to COVID-19 pandemic to avail the incentive provided to them by the Government
- This could potentially impact issue of phantom stocks, 'right to subscribe' contracts and similar such arrangements with persons other than employees. However, determination of taxable value still remains a question

FOR FOUNDERS AND TEAM*

TAX ANNOUNCEMENTS

- Surcharge on long term capital gains on sale of unlisted securities capped to 15%
- No changes proposed in income tax slabs
- Taxpayers can file updated income-tax return to disclose additional income within 2 years from end of the assessment year subject to payment of 25% and 50% additional tax for year 1 and 2 respectively [section 139(8A)]
- COVID-19 related relief [section 56(2)(x)]
 - Amount received from employer for COVID related medical expenses incurred by employee for himself / his family not taxable
 - Amount upto INR 10 lakhs received from employer / any other person by family member of deceased person within 12 months of COVID related death

IMPACT

- This reduces the tax rate on long term capital gains tax on sale of unlisted securities from ~28% to ~23%
- In case the taxpayer has inadvertently missed filing the return or disclosed a lower income, it gives them a chance to file/revise return proactively
- Tax relief for employees and their families for any COVID related medical expenses and one time payments subject to limits from FY 2019-20 onwards

FOR INVESTORS

POLICY ANNOUNCEMENTS

- To scale **Venture Capital and Private Equity** investment, expert committee to be set up for holistic examination of regulatory and other frictions

TAX ANNOUNCEMENTS

- Surcharge on long term capital gains on sale of unlisted securities also capped to 15%
- Bonus and dividend stripping provisions now applicable to all securities (including equity shares and units of AIFs / REITs / InvITs) [section 94(7) and 94(8)]

IMPACT

- Tax rate for long term capital gains tax on sale of unlisted securities reduced from ~28% to ~23%
- Ambit of these provisions widened to include equity shares and units of investment vehicles

VIRTUAL DIGITAL ASSETS

TAX ANNOUNCEMENTS

- Tax regime introduced for ‘virtual digital assets’ [section 115BBH]:
 - Tax rate of 30% on transfer
 - No deduction other than the cost of acquisition shall be allowed
 - Loss from transfer of such assets not allowed against other income
- TDS at the rate of 1% applicable on the transfer of virtual digital assets [section 194S]
- Gift of such assets to be taxable in the hands of the recipient [section 56(2)(x)]

IMPACT

- In our opinion, bringing the digital assets into the tax regime is a welcome move from the government to accept the new age digital assets
- It will be interesting to see how the guidelines will be implemented however inclusion of tax framework would help to regulate the booming cryptocurrency and NFT wave in India
- Moreover, the Government has also proposed to introduce the digital rupee that lends credence to the hypothesis that crypto will never be recognized as legal tender in India. Guidelines will be issued in due course by the government

OUR VERDICT

The Budget for 2022 backs up the Government's focus on the startup sector by outlining a number of policy related proposals that will provide robust growth and support to the Startup Ecosystem in the country.

The proposal to tax 'digital virtual assets' may be seen as a good move towards creating a regulatory oversight for this sector - however the proposal to also introduce a digital RBI denominated Rupee could possibly mean that private cryptocurrencies may not be legitimised as legal tender.

Another positive outcome is the proposal to reduce and cap the surcharge on LTCG on unlisted shares. The setting up of an expert committee tasked specifically into scaling up Private Equity and Venture Capital by looking into regulatory and other concerns is a boost to the climate that should elicit stronger interest from HNIs investing in this investment class.

Looked at in tandem, the budget lays out a strong roadmap to realise its long term vision for the *Amrit Kaal*.

THANK YOU!

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