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# Industry seeks removal of 'Angel Tax'; to greatly aid capital formation, says CII

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New Delhi | Updated: June 19, 2024 05:54 IST






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The Department for Promotion of Industry and Internal Trade (DPIIT)-recognised startups were excluded from the Angel Tax levy.

Amid a sharp decline in funding for startups and consequent job losses, [Indian Inc](#) has sought the [removal of Angel Tax](#) that has been a subject of heated debate between the industry and the government ever since the scope of the controversial tax was expanded in the Finance Bill 2023.

The Confederation of Indian Industry (CII) in its [Union Budget](#) recommendation on Tuesday suggested the removal of Section 56(2)(viib) of the Income-tax Act colloquially known as the 'angel Tax' stating that the step "would greatly aid capital formation in the country".

Angel Tax was first introduced in 2012 to deter the generation and use of unaccounted money through the subscription of shares of a closely held company at a value that is higher than the fair market value of the firm's shares.

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The industry has argued that the government is wrong in citing the difference between valuations and actual performance as a sign of money laundering, adding

that investors fund startup based on their future potential. Taxes levied on the difference between issue price of unlisted securities and its fair market value (FMV) has hurt funding, it said. The changes in the Angel Tax provisions came at a time when an estimated 100 Indian startups laid off over 15,000 employees in 2023, a funding winter that began in 2022 persisted. Moreover, Indian startups with over 60 per cent decline in funding in terms of value in 2023.

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The Finance Act, 2023, had amended Section 56(2)(viib) of the Income-tax Act. The provision stated that when an unlisted company, such as a start-up, receives equity investment from a resident for issue of shares that exceeds the face value of such shares, it will be counted as income for the start-up and be subject to income tax under the head 'Income from other sources' for the relevant financial year.

## EXPLAINED

### What is Angel Tax?

Angel tax – which is income tax at the rate of 30.6 per cent – is levied when an unlisted company issues shares to an investor at a price higher than its fair market value. Earlier, it was imposed only on investments made by a resident investor. However the Finance Act 2023 proposed to extend Angel Tax even to non-resident investors from April 1, 2024.

With the latest amendment, the government had proposed to also include foreign investors in the ambit, meaning that when a start-up raises funding from a foreign investor, that too will now be counted as income and be taxable.

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However, after pushback from the industry and reports of decline in funding, the Finance Ministry exempted investors from 21 countries including the US, UK and France from the levy of Angel Tax for non-resident investment in unlisted Indian start-ups.



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But the list excluded investment from countries like Singapore, Netherlands and Mauritius — which have traditionally been key geographies for start-ups to raise money

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First uploaded on: 19-06-2024 at 04:14 IST

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