

Standing Committee Report Summary

Ecosystem of Startups to Benefit India

- The Standing Committee on Commerce (Chair: Dr. Abhishek Manu Singhvi) submitted its report on ‘Ecosystem of Startups to Benefit India’ on August 10, 2023. Key observations and recommendations of the Committee include:
 - **Access to funding:** Investments in startups are cyclical in nature. They witness market corrections based on various factors such as macroeconomic conditions, investor sentiments, and monetary policies. The Committee observed that there was a need to create a pool of additional funds to help good startups in such periods. It recommended that the Department for Promotion of Industry and Internal Trade (DPIIT) should conduct an assessment to identify areas that require additional funding. The Committee also expressed concerns at the lack of government-supported mechanisms to monitor funds received by startups from private investors. Startups may be encouraged to adopt best accounting practices.
 - **Single implementation agency:** 42 ministries/departments/bodies are overseeing the implementation of various schemes and initiatives related to startups. The Committee noted that this leads to lack of coordination and delay in scheme implementation. It recommended the creation of a single implementing body to oversee and manage the entire startup ecosystem. It also recommended creating a grievance redressal mechanism to address issues in real-time and provide solutions.
 - **Regulatory support:** The Committee noted that easing regulatory/legal framework to facilitate direct overseas listing of unlisted Indian startups could give a boost to the ecosystem. It also recommended simplifying the registration process for startups along with eliminating the extensive list of eligibility criteria for registration with DPIIT.
 - **Income tax exemptions:** Under the Income Tax Act, 1961, if the gross total income of startups includes profits and gains derived from businesses, such profits can be deducted while computing total income for three consecutive years. The Committee noted that since the provision was implemented in 2017, only 10% of startups had applied for the exemption. In addition, only 1% of recognised startups have received the certificate of eligibility from the inter-ministerial board which is one of the conditions for claiming the exemption. The Committee recommended relaxing the criteria for issuing the eligibility certificate.
 - **Angel Tax:** As per the Income Tax Act, 1961, an
 - ‘Angel Tax’ is levied on startups when they receive investments in excess of their fair market value. It seeks to deter generation and use of unaccounted money by subscribing to shares at a higher value. Certain non-resident investors and DPIIT recognised startups have been excluded from its purview. The Committee recommended that DPIIT should engage with stakeholders to address residual concerns regarding Angel Tax provisions.
 - **Agri startups:** The largest segment of Indian startups is dedicated to information technology services. The Committee noted that emergence of startups focusing on agriculture contains significant potential. However, only 5% of the total startups are recognised under the agriculture sector. The Committee recommended that agri-based startups should be supported by providing increased funding opportunities and mentorship.
 - **Public procurement:** Public procurement platforms can play an important role in promoting startups. 10% of startups registered with DPIIT have transacted business worth Rs 14,000 crore on the Government e Marketplace (GeM) portal in last eight financial years. The Committee recommended conducting a periodic review of the procurement framework for startups. It noted that large private companies may also be persuaded to purchase products and services from startups. This may be done by opening the GeM portal for the private sector to procure goods and services.
 - **Testing and certification:** Startups have been facing challenges related to testing and certification. The Committee noted that the testing process should be less time-consuming, easily navigable, and industry friendly. It recommended establishing dynamic testing and certification standards in line with international best practices. It also recommended: (i) ensuring adequate number of skilled testing personnel, (ii) streamlining of the testing and certification process, and (iii) addressing compliance and financial constraints faced by startups in securing product certifications.
 - **Intellectual property (IP) rights:** Between 2016-17 and 2022-23, only 11% of the total patent applications filed by startups were granted. The Committee recommended that DPIIT should investigate the reasons for the low number of patents granted. It also noted that startups are unaware about the IP process. It recommended conducting workshops to raise awareness among startups regarding IP laws and associated processes.

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