

THE HINDU EDITORIAL

06 FEBRUARY 2019

Timely review: On start-up tax

The very idea of an 'angel tax' on start-ups must be reconsidered

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Start-ups troubled by the so-called angel tax may soon receive some concession from the government. On Monday, the Centre set up a five-member working committee to look into revising the norms of the angel tax imposed on start-ups. The tax, which was first introduced in 2012 to curb money-laundering through the sale of shares of private unlisted companies at bloated prices, has caused a lot of anguish among start-up investors in the country. Start-up owners have complained that income tax officials have asked many start-ups to cough up money when they try to attract capital into their entities by issuing new shares. For its part, the IT department fears that start-ups may be used as convenient tools to launder illegally acquired money, so a tax on investments beyond a certain threshold is necessary to deter such shady operations. But while the intent of such an angel tax may be justifiable, the arbitrary nature of it means the cost of unintended consequences could be larger than the supposed benefits. In trying to curb money-laundering, Section 56(2)(viib) of the Indian Income Tax Act, 1961 gives income tax officials a free hand to harass even genuine start-ups looking to raise investments for their growth. Under the Act, the IT department is free to arbitrarily decide the fair value of a company's share and tax start-ups if the price at which their new shares are sold to investors is higher than the fair value of these shares. The broad-brush tax on all investments means an unnecessary cost is imposed on the wider start-up community simply because of the lack of better means at the government's disposal to tackle black money.

The committee set up by the government will, among other things, consider raising the threshold beyond which new investments into start-ups will be taxed. It is expected that start-ups with aggregate paid-up share capital and share premium of less than ₹25 crore, against the previous threshold of only ₹10 crore, will not be taxed while attracting new investment. This would definitely make life easier to a certain extent for angel investors and start-ups. But it will not address the real problem with the angel

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tax, which has to do with the unbridled power that it vests in the hands of the income tax authorities. Investors, foreign or domestic, may become wary of investing in new ideas when they are taxed while risking money on untested ventures. So the government should look to withdraw the angel tax and focus instead on building the capability to better identify and rein in illegal wealth. Otherwise it risks killing the nascent start-up ecosystem in the country.

THE HINDU VOCABULARY – 06 FEBRUARY 2019

- Look into sth- to examine sth जांच करना, पता लगाना
- E.g. A working party has been set up to look into the problem.
- Bloated(adj.)- bigger than normal
- Anguish(n.)- severe pain, mental suffering कष्ट
- E.g. He groaned in anguish.
- Cough up sth- to give sth especially money, unwillingly.
- Shady(adj.)- seeming to be dishonest, illegal संदिग्ध
- E.g. a shady deal.
- At your disposal- available for use.
- E.g. He will have a car at his disposal for the whole month.
- Aggregate sth(with sth)- to put together different items, amounts in a single group. इकट्ठा करना
- E.g. The butterflies aggregate in dense group.
- Unbridled- not controlled अनियंत्रित
- E.g. His unbridled greed made him corrupt and led to his down fall.
- Vest(v.) sth in sb- to give sb the legal right or power to do sth
- E.g. Overall authority is vested in the supreme council.
- Rein in sth- to start to control sb/sth – check नियंत्रित करना
- E.g. We need to rein in public spending.
- E.g. She kept her emotions tightly reined in.
- Nascent (adj.)- beginning to exist, yet to be developed अविकसित, नवजात