

Tuesday 27<sup>th</sup> December, 2022

# Issues And Opportunities *STARTUPS*



CA RISHI KHATOR

# Gratitude

# Objectives

**Understand**

**Issues:  
Challenges**

**Opportunities**

# Understand

*Tell me and I forget. Teach me and I remember. Involve me and I learn*

# The Startup World

**86429**

No. of startups  
with DPIIT

**993**

Certified  
for Income tax  
exemption

**3267**

Funded by SIDBI  
Fund of Funds

**\$350 Bn**

Valuation of  
Unicorn Startup

**108**

Unicorns

# Unicorns USD 350 Bn

Molbio Diagnostics



1 MG

Ship Rocket

5ire

One Card



**Startups are nothing but an idea that manifests into  
a commercial undertaking.**



# Defining Startup

Particulars	DPIIT	Income Tax		Companies Act
		56(2)(viib)	80 IAC	
Nature of Activity	Innovation, Development or Improvement, Scalable Business Model with a high potential of employment generation or wealth creation	Same as DPIIT	Innovation, Development, Deployment, Commercialization of new products, processes or services driven by technology or intellectual property	Same as DPIIT
Age	10 years	10 years	Formed after 1.4.16	Same as DPIIT
Paid up Capital	Not mentioned	INR 25Cr	Not mentioned	Same as DPIIT
Turnover	INR 100 crore	Same as DPIIT	INR 100 crore	Same as DPIIT
Legal Structure	Private Ltd. Company, LLP, Registered Partnership	Private Company	Private Ltd. Company, LLP	Private Company
Specific Declaration	No	Form 2	Form 1	No

Reserve Bank: Same as DPIIT

Notes: No splitting up or reconstruction or transferring machinery from existing businesses allowed. Moreover, it will cease to be a Startup once it crosses the threshold limit.

# DIPP/DPIIT Certificate

Certificate No.: D 174



Department of Industrial Policy & Promotion  
Ministry of Commerce & Industry  
Government of India

## CERTIFICATE OF RECOGNITION Department of Industrial Policy and Promotion

This is to certify that A ITED incorporated/ registered as a Private Limited Company on 21 14, is recognized as a startup by the Department of Industrial Policy and Promotion.

Date of Issue: 28- 01 18

Place of Issue: New Delhi

The certificate shall only be valid for the entity:

- Up to seven years from the date of its incorporation/ registration; and
- If its turnover for any of the financial years since incorporation/ registration has not exceeded Rs. 25 crores.

Note:

- Authorities accepting this Certificate may check its validity on the Startup India portal (<http://www.startupindia.gov.in/>)
- This certificate is not the Certificate issued by the Inter Ministerial Board and is NOT VALID for availing Tax benefits
- This is a system generated certificate and hence does not require physical signature
- If such recognition is found to have been obtained without uploading the relevant documents or on the basis of false information, DIPP reserves the right to revoke the recognition certificate immediately without any prior notice or reason.



## Startup Jargons

- Advertorial
- Bootstrapping
- Burn rate
- Churn rate (rate of attrition)
- Cottage Business
- Pitch Deck
- Disruptive Technology
- Exit Strategy
- FMA
- Freemium
- Growth hacking
- Iterate
- Proof of Concept
- Pain Point
- Runway
- Traction
- Value Prop

**Hard work works harder than luck**

**Don't wait for right moment to start,  
Start to make each moment right**

**If you want to go fast, walk alone,  
If you want to go long, form a team.**

## Insights

Pleased to share few enlightening insights into startups by way of quotes –

### Speed

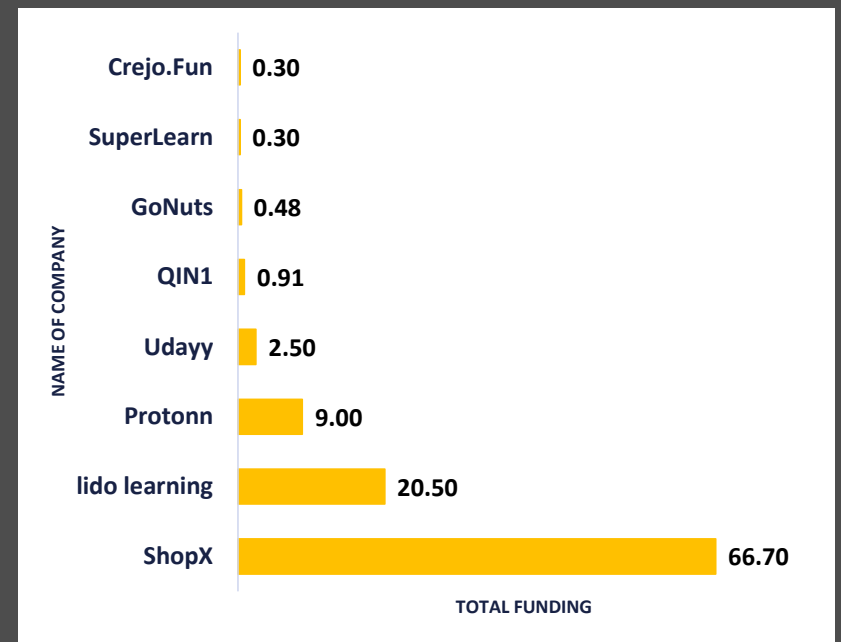
- Mark Otero, KlickNation, Founder and CEO “*Fail fast: Start with a working set of assumptions and test them out in the market very fast. If your assumptions are wrong then pivot, adjust, and make a decisive decision*”
- Levi Cooperman, Co-founder and VP of Operations, Freshbooks: “*Don't get stuck planning too long, build something and push it out to your users as fast as possibly can. If your product is getting good reviews and people are willing to pay for it, you have got something*”

# Issues

## Shutting Shop

*A snapshot of eight startups that have shutdown during the year along with the total funding received.*

Company Name	Year Founded	Year of shutdown	Funding (in millions) in dollars
ShopX	2015	2022	66.70
lido learning	2019	2022	20.50
Protonn	2020	2022	9.00
Udayy	2020	2022	2.50
QIN1	2019	2022	0.91
GoNuts	2020	2022	0.48
SuperLearn	2022	2022	0.30
Crejo.Fun	2020	2022	0.30



Source: Inc42.com and Tracxn

# Concerns in new Startups

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graph TD; A[Concerns in new Startups] --> B[Awareness of various statutory compliances: GST, TDS, ITR, Companies Act (Annual Filing and Event based filing)]; A --> C[Valuation]; A --> D[Incomplete Projections]; A --> E[Very Crowded Space];
```

**Awareness of various statutory compliances:**  
GST, TDS, ITR,  
Companies Act  
(Annual Filing  
and Event based  
filing)

**Valuation**

**Incomplete  
Projections**

**Very  
Crowded  
Space**



## Challenges-Breaking Barriers

### Few Tips (will help stand tests of time)

- Don't be afraid to move too fast
- Talk to people: Fear of pilferage / failure
- Interest doesn't always mean money: Make people pay
- Ability to catch yourself before you fall : Balance
- Supporting Infrastructure (*Incubator, business centre*)
- Take mentorship (*execution*)
- Have someone with Domain expertise and other complimentary skills
- Keep proper records

When going gets tough, tough gets going

## Funding Support

SIDBI : Fund of Funds – 163 AIF invested INR. 13.5K Crore

Startup India Seed Fund – Corpus of INR. 945 Cr for POC, Prototype, market entry, product trial`

CGSS : Credit Guarantee for Startups : G'tee coverage upto INR.10 cr

Standup India Scheme : bank Loan INR.10 lakh to INR. 1 cr Greenfield project for SC/ST/Women

Several Grant Schemes – Agriculture, Core Research Grant, Design Clinic Scheme

# Opportunities

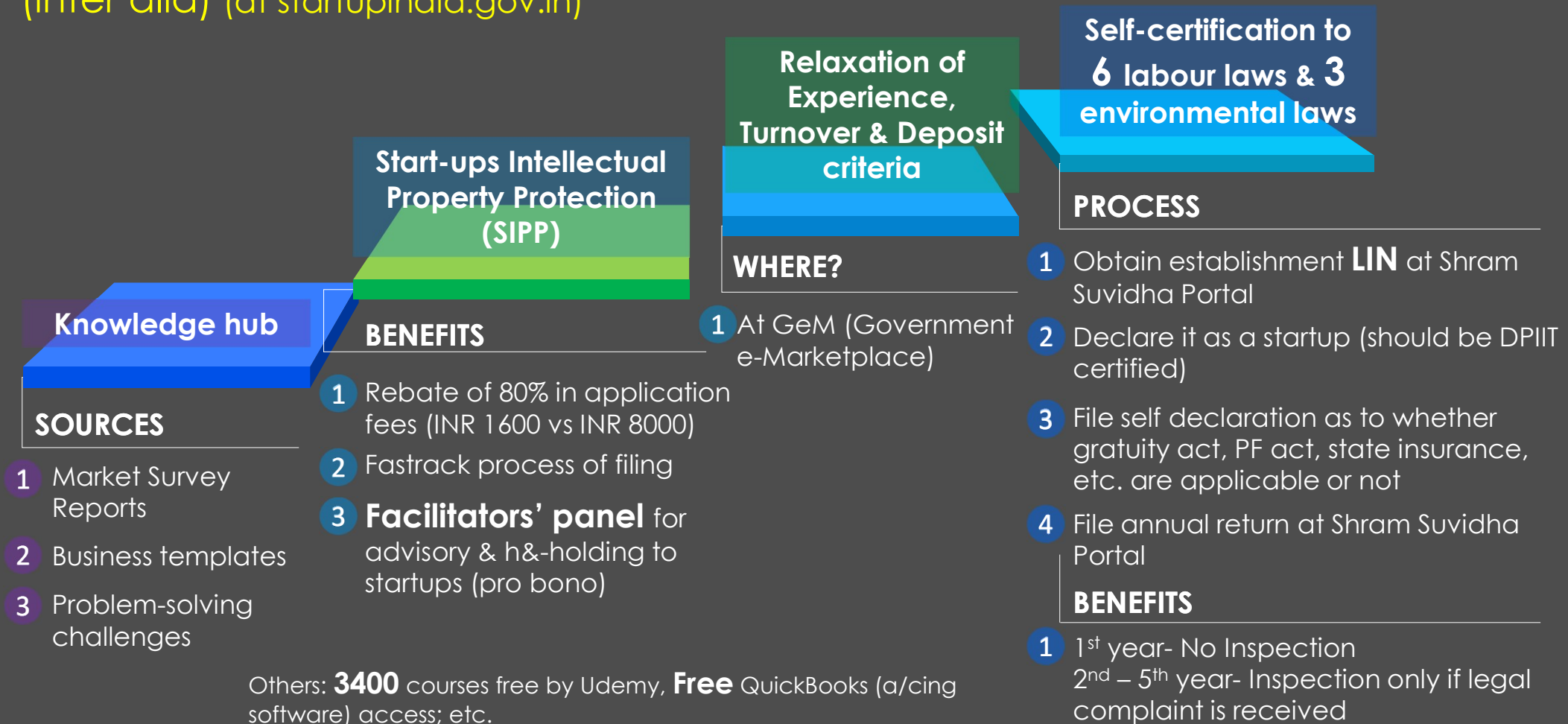
# CA as a professional in Startups

Specialised Startup Services CA's can provide:

- Sourcing Startups
- Business Model & Financial Forecast
- Business Valuation
- Transaction Advisory & Share Holders Agreements
- Pitch Deck
- Shared CFO Services during early days of Startups
- Startups Registration
- Compliances (also FEMA)
- Bookkeeping
- ESOP
- Guidance Note
- Master Classes

# Non-monetary benefits TO DPIIT CERTIFIED STARTUPS

(inter alia) (at [startupindia.gov.in](http://startupindia.gov.in))



Angel tax is applicable only on Private Companies & **not on** LLP & Partnership firms

## 56(2)(viib) – ANGEL TAX

Angel tax is not applicable in case money is received from a **Non-resident** or a **registered Venture Capital**

Where a **company** receives, from any person being a **resident**, any consideration for **issue** of shares that **exceeds the face value** of such shares, the aggregate **consideration** received for such shares as **exceeds the fair market value** of the shares shall be taxable

**Exemption** for startups if following satisfied:

- 1 **DPIIT** certified startup
- 2 Entity form:
  - **Private Company**
- 3 Paid up share capital + Share premium  $\leq$  **25cr**
- 4 File **form 2 (in form 56)** before return filing date for **declaring** that you will not invest (for **7 years** from the end of the latest financial year in which shares are issued at premium) in:
  - Jewellery, Motor vehicles **>10 lakh**, Residential house (Other than **stock-in-trade**)
  - Loans & Advances (Other than in the ordinary course)
  - Capital contribution(In case of default, angel tax applicable on retrospective basis)

### What the case laws teach us

- 1 Notice for Angel tax scrutiny is especially received when companies are **downsizing** their valuation
- 2 Tax authorities **do not** have the power to order the taxpayer to adopt any particular method of valuation. Tax payer has the right to choose **DCF or NAV method**
- 3 Tax payer should have **reasonable information** to substantiate the projections
- 4 Shares should be valued at the **date of issue**
- 5 If the valuer gives a **disclaimer** for valuation, it can be challenged by IT
- 6 Cases might be taken up until **5 years** later, which allows IT to get the true outcome of DCF valuation

# Section 80-IAC

In case of an eligible startup, there shall be allowed a **deduction** of an amount equal to **100%** of the **profits & gains** derived from eligible business for **3 consecutive** assessment years out of **1<sup>st</sup> 10 years** from the date of incorporation.

**Conditions** to be satisfied:

Startup is free to choose the 1<sup>st</sup> year.  
One must strategize to obtain maximum benefit

1 **DPIIT** certified startup

2 **Inter-Ministerial Board (IMB)** certified startup

3 Entity form: Usually meets **fortnightly**

• **Private Company** or **LLP** Cannot be a **Partnership firm**

4 Turnover **<=100cr p.a.** & Age **<=10**

**Patents** and **awards** improve chances

5 Should be **incorporated** post **1/4/16**

Includes **Balance Sheet & Profit & Loss Account**. Should be **certified** by a **CA**

6 Submission requirements include

- **Annual accounts & IT return** of preceding **3 years**
- **Video Link** (Max 2 min) showcasing working of product, market traction, future plans etc.
- **Pitch Deck** (should include projected **employment** opportunities, credentials of management & promoters)

## How to register

Go to [startupindia.gov.in](http://startupindia.gov.in) & create an entity account.

Fill **online form** that ask for following:

Entity details, full address, Director/partner details, **nature of goods/services provided**, self declaration

Takes **7-10** days for registration

## Key parameters:

- **Innovation**; or
- **Significant improvement**; or
- **Scalability**
- High potential of **employment/wealth creation**

Imperative to keep filing IT returns to maintain eligibility

(In case Entity is established post **1/4/18**, ITR is not mandatory)

# CA as promoters of Startups

As an entrepreneur-

- Rajesh Magow- co-founder of MakeMyTrip
- Stockedge.com
- Devesh Rakesha – yearbookcanvas.com
- Sonia Singhal - cajobportal.com
- Dhruv Shringi- co-founder Yatra.com
- Alok Patnia- founding managing partner of Taxmantra.com

ICAI Initiatives:

- Incubation
- Networking Angel Investors
- Mentors
- Startup.icaai.org



## Tax Mantra

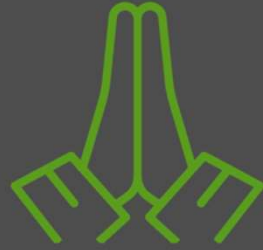
**Taxmantra** provides online accounting & tax filing services for individuals and businesses. It offers services for tax & legal compliance, CFO advisory, bookkeeping outsourcing, online tax return, payroll management, and more.



## Rajesh Magow- MakeMyTrip

Rajesh Magow is the Co-Founder & Group Chief Executive Officer of **MakeMyTrip** Limited, the holding company of India's leading travel brands MakeMyTrip, Goibibo and Red Bus. Rajesh is a believer of India's digital opportunity and a backer of many young Indian tech companies that are raring to make their mark.





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**Thank You**



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