

STARTUPS ANGEL TAX

SEC 56(2)(VIIB)



APPLICABILITY TO STARTUPS

If a private limited company receives **consideration for the issue of shares in excess of FMV**, the same shall be taxable under **Sec 56(2)(viib)**.

This was introduced to prevent money laundering and roundtripping via investments with a large premium into unlisted companies.

To relieve startups from angel tax, the following notification was rolled out:

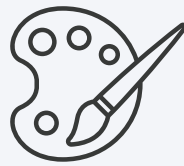
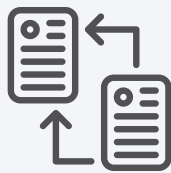
Company that fulfills the conditions specified in **para 4 of the notification number G.S.R. 127(E), dated 19.02.2019** issued by the Ministry of Commerce and Industry in the DPIIT shall be exempted from the provision of Sec 56(2) (viib):

I) It has to be DPIIT recognised

II) Paid up share capital + Securities Prem. after issue or proposed share issue, does not exceed 25 crore rupees. The amount received from Non-resident and VC Funds shall not be included in the above computation.

III) It has not invested any of the assets mentioned in the said notification for the period of 7 years

One of the assets mentioned in the notification is investment in shares. A Start up having a subsidiary may not be able to enjoy this shield from Angel tax



Any startup claiming exemption under Sec 56(2)(viib) of Income tax act shall file a declaration under **Form 2** that it has not invested and shall not invest for a period of 7 years in any of the assets mentioned in the notification.

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