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Start-ups in India - Evolution, Incorporation, Benefits: An Overview

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The startup is an initiative launched by Shri Narendra Modi, Prime Minister of India in 2016. With the objective to attain growth, become self-reliant, generate employment, boost the 'Make in India' initiative and create a large eco-system, the government aims to provide various incentives and benefits to these startups to boost their confidence which will further help them to grow. It is rightly said by Franklin D. Roosevelt- "We cannot always build the future of our youth, but we can build our youth for the future." Youth is the future of our society. And to give them a platform to convert their ideas and innovations into reality is the job of the government. And encouraging the people, the young and talented entrepreneurs to come forward and turn their dreams and ideas into reality is a major challenge for the government also. As there is always a risk involved in terms of money, time, value, and many other things. Therefore, the government by introducing various schemes, tax exemptions, and other benefits has given a wonderful opportunity to young and talented minds.

Keywords: *startups, unicorns, incentives, benefits, exemptions, innovation.*

INTRODUCTION

The start-ups in India have seen a tremendous increase in recent years. It was an initiative of the Government of India to promote innovation, and self-reliance and to generate employment

opportunities. Prime Minister Narendra Modi first announced the Start-up India scheme in 2015 during his speech on 15 August 2015 from Red Fort. The start-up India campaign was then launched in 2016 to boost entrepreneurship skills and employment opportunities. To encourage the people to put some innovative ideas into business so the country becomes self-reliant which can further enable growth and also it will also reduce the dependency on other nations for various things. And with this goal, India currently ranks third in overall unicorns created, Fourteen Indian companies have turned unicorns between January and June this year and Forty-four companies have hit this milestone in 2021.¹

WHAT IS THE MEANING OF STARTUPS?

Any entity which:

- 1. If it is incorporated as a private limited company or registered as a partnership firm or a limited liability partnership in India.*
- 2. Up to ten years from the date of its incorporation/registration.*
- 3. If its turnover for any of the financial years since incorporation/registration has not exceeded INR 100 Crores.*
- 4. If it is working towards innovation, development, or improvement of products or processes or services, or if it is a scalable business model with a high potential for employment generation or wealth creation.*

Note: *An entity formed by splitting up or reconstruction of a business already in existence shall not be considered a 'Startup'.*

In simple terms, startup means any new entity which is not more than 10 years old and is incorporated as a private limited company, partnership firm, or limited liability partnership with a turnover of less than INR 100 crores in any financial year. And it must work towards innovation and development of new products and services.

¹ Kritika Bhalla, 'India created 14 unicorns in the first half of 2022 – before funding slowdown hit them' (*Business Insider India*, 2 June 2022) <<https://www.businessinsider.in/business/startups/news/india-created-14-unicorns-in-the-first-half-of-2022-before-funding-slowdown-hit-them/articleshow/91955385.cms>> accessed 20 June 2022

So basically the objective is to encourage new and small businesses which have innovative, revolutionary, and futuristic ideas for the development and growth of the country.

EVOLUTION OF START-UPS IN INDIA

The startups in India have evolved significantly in the last few years. India is ranked number three with the most startups created while China ranks second and the USA at first. India has about more than 60000 startups, with Bengaluru, Mumbai, Delhi, Noida, and Gurgaon being the cities with the maximum number of unicorns. India currently has identified more than 90 unicorns leaving behind the UK with 39 unicorns. China has identified 301 unicorns and the USA has recognized 487 unicorns. *Indian startups have raised \$42 billion in 2021, up from \$11.5 billion in the previous year, a report by Orios Venture Partners said.*² India has now made a century and it has crossed the mark of 100. A few of the unicorns identified are *Inmobi, Mamaearth, Games 24x7, Purple, Flipkart, BharatPe, Dream11, PhonePe, Ola, Byju's, OYO, Swiggy, Zomato, MakeMyTrip, Nykaa, CoinDCX, ShareChat, PharmEasy, CRED, Meesho, Groww, Cars24, Delhivery, CureFit, Livspace, etc.* The unicorns are recognized when the valuation of the startups crosses over \$1 Billion. So, India has currently 100 plus unicorns now. InMobi, a Bengaluru-based startup was the first one to enter the unicorn club in 2011. Around 44 startups were identified as unicorns between 2020 to 2021 only, making it to a total count of 102 as of now.

HOW TO REGISTER A STARTUP?

The Government of India has established a website named www.startupindia.gov.in, where the startups have to register themselves by filling in some details as required in the form. The basic details like name, number, email-id, password, etc. are required to fill in. It is a very easy and simple process.

After this to get recognized by the government to enjoy the benefits available to startups, apply to DPIIT (Department for Promotion of Industry and Internal Trade). DPIIT recognition

² 'Indian startups raised \$42 billion in 2021: report' (*The Economics Times*, 13 January 2022) <<https://economictimes.indiatimes.com/tech/funding/indian-startups-raised-42-billion-in-2021-report/articleshow/88875670.cms?from=mdr>> accessed 20 June 2022

will help and enable the startups to get the tax incentives, benefits, schemes, etc which the Government of India has prescribed. Some more details like the name of the entity, address of the entity, authorized representative details, etc are required along with self-certification. And then a few documents are required to be submitted like PAN, certificate of incorporation, authorization letter, or any other as may be required after examining and verifying all the information and documents by the department, one will get a recognition number which will enable the startups to enjoy the schemes, tax exemptions, incentives, and benefits available to them. And if the application is rejected then the reasons as to why it is being rejected are also given by the authority.

BENEFITS

Under Startup Initiative, Government has announced various schemes and benefits related to tax and some other general benefits. Let's have a brief look at what all benefits are provided by the Government of India to boost this initiative.

- Since the startups majorly include new or small business setups so it's important to ensure that the registration process must be easy. Therefore, Government has ensured that the registration for startups should be less complex and consume less time, and thus GOI has also launched a mobile app and made the process simpler.
- The registration and compliance are based on self-certification which is so easy for the startups as there is no requirement to get certification from any external agencies which sometimes makes the process cumbersome and costly.
- The startups are provided with a list of a few patents or trademark facilitators who provide them with Intellectual Property Rights Services at low fees. Even the startups have not to bear the burden of their fees, they only have to pay statutory fees. All the fees are paid by the government thereby reducing the costs of the startups. Their 80% cost is reduced.
- The government of India has also set up a fund of INR 10000 Crores specifically for startups. As funding is the topmost priority for startups, so to help them with funding, GOI provides the funds as venture capital to startups, or even sometimes gives a

guarantee to the lenders so that the financial institutions and banks provide them funds as they require. It basically does not provide funds directly to startups but through venture fund capital which is why it is called funds of funds.

- The government releases various tenders and the companies have to apply to them within the prescribed form and manner. There are certain criteria like minimum turnover limit or experience etc. However, startups can apply to the tenders without fulfilling any requirements as they are exempted from them.
- If any startup wishes to exit or close down its business then it is much easier for them as compared to normal business. Within 90 days of the application, they can apply to wind up the business and close it down.
- Another important benefit given to the startups is providing them with a credit guarantee. The credit fund guarantee will ensure the flow of funds to the startups through the normal banking system.
- For startups to grow it is very much important to connect with each other and build a strong network. And thus, a startup fest is organized to build a startup ecosystem. The startups get a unique and wonderful opportunity to know their fellow startups, showcase their ideas and skills, to meet potential investors and mentors at the national and international levels.
- Launching Atal Innovation Mission (AIM), which will have two main functions, one is to promote entrepreneurship through Self Employment and Talent utilization Program and another one is to promote innovation.
- To build innovation centres and research parks for promoting R&D purposes.

TAX-RELATED BENEFITS/EXEMPTIONS

- One of the major benefits the government has provided to startups is a tax holiday period which is of 3 years. This means any income which is taxable under income tax will be exempt for a period of 3 consecutive years. However, there is one condition to

this which is that a period of 3 years is to be selected out of a period of the first ten years. This exemption is available under section 80IAC under the *Income Tax Act, 1961*³

- The government has also exempted income that arises from Capital Gain. Capital Gain income means any income which arises from the sale or transfer of capital assets. This exemption is given up to 50 lakhs. And another condition is the amount of this long-term capital gain must be invested in a special fund set up by the government for startups. This exemption is also applicable for a period of 3 years.
- A benefit of the reduced rate is also provided to startups by the government. It means the rate at which tax is charged on the income of the startups is less than the normal rate of tax. The new domestic manufacturing companies can pay the tax on their income at the rate of 25% along with the surcharge and cess. And the small domestic companies (having turnover of less than 5 crore rupees in FY 14-15) can pay the tax at the rate of 29% along with the surcharge and cess.
- The startups are given tax exemption in a case where they receive any consideration in respect to the issue of shares in excess of fair market value (FMV). Now, generally where the consideration for the issue of shares is received which is more than the FMV then the excess amount is taxable. However, to encourage the startups this has been exempted from the tax.
- The startups can carry forward and set off their losses incurred during the first seven initial years of the commencement of the business. However, all the shareholders must be the same at the time of loss incurred as well at the time of carrying forward and set off.

SOME KEY ISSUES

As exciting and thrilling as it may sound, it has some issues and challenges which make it a bit difficult for startups to grow. As surviving in this competitive environment has become tough and challenging day by day. Some of the common issues faced by startups are:

³ Income Tax Act, 1961, s 80IAC

- There is huge competition now. In every sector, every area, everywhere you go, the competition is increasing day by day and so is the survival of the startups.
- Another major challenge is the employees. The employees are the core of the company. It is not possible to grow without a team of capable and competent staff. And thus, hiring the right candidates might be of major concern.
- The financial issue is also one of the major issues. The management of income and expenditures is an important task. And if not done right the company can go into losses thereby winding up the business.
- Not to forget the customers. The real challenge is to build a customer base. A happy customer means growing business. As it is rightly said by Vince Lombardi 'It takes months to find a customer, seconds to lose one.' Thus, the customer is the source of one's business. Therefore, attracting and gaining customer trust is a major challenge.
- sometimes entering into wrong partnerships or making any wrong decision can lead to doom. A good decision or good partnership can lead to success similarly any wrong decision or the wrong partnership can lead to failure.
- In this digital era, with the increase in the advantage of using the internet, the risk of using it has also emerged. Various cyber threats like online fraud, hacking, unauthorized access to data, data leakage, etc have become common. So one has to remain careful and implement such measures and security systems to ensure the information and data is not prone to cyber threat.

While there are many startups that have gained huge popularity and also have been able to make it to unicorns. There are many who have miserably failed. *According to an IBM Institute finding, nine out of 10 startups in India are doomed to fail within the first five years. Mumbai-based insurance startup BimaPe shut down within its first year after it failed "to reach its market-product fit metrics set in March 2021".*⁴ Some other startups that could not be able to survive are Jabong, Quibi, Starsky Robotics, Essential, HubHaus, etc. Many Indian startups are laying off their

⁴ 'Startups that tried to make it big but perished in last one year' (CNBC TV18, 17 September 2021) <<https://www.cnbctv18.com/startup/startups-that-tried-to-make-it-big-but-perished-in-last-one-year-10765041.htm>> accessed 20 June 2022

employees and thus are struggling to survive in the competitive environment. *Layoffs across Indian startups have crossed the 10,000 mark as companies struggle to raise funds and are finding ways to reduce their cash burn to survive the funding winter. More than 10,500 Indian employees working at startups were let go in 2022.*⁵Few of them are which have laid off their employees in masses are Unacademy, Ola, Blinkit, Meesho, Vedantu, Cars24, WhiteHatJr, etc.

CONCLUSION

To build a strong and large ecosystem, encourage youth towards innovation, create numerous employment opportunities, and move a step closer to the Make in India initiative, the Startup India initiative was launched by the Government of India. To bring more people ahead, the government has formed many policies and regulations in order to help startups to set up their businesses. With time, India has seen a very large amount of startups turning successful. However, there have been failures also. As ideas may be easy but their implementation requires proper planning, strategy, hard work, and good decision-making. But where there is a risk there is an opportunity. As it is rightly said by Mark Zuckerberg “*The biggest risk is not taking the risk.*” And in the coming time, it is predicted that India will see much more growth in startups and unicorns. *According to a recent survey by Iron Pillar Funds, India is set to have 250 unicorns by 2025.*⁶

⁵ Mansi Verma, ‘Startup layoffs cross 10,000 mark as companies restructure, attempt to reduce cash burn amid funding winter’ (*Money Control*, 20 June 2022)

<<https://www.moneycontrol.com/news/business/startup/startup-layoffs-cross-10000-mark-as-companies-restructure-attempt-to-reduce-cash-burn-amid-funding-winter-8711621.html>> accessed 20 June 2022

⁶ Shivani Shinde, ‘Factors that could slow the spawning of Indian unicorns in 2022’ (*Business Standard*, 20 April 2022) <https://www.business-standard.com/article/companies/factors-that-could-slow-down-the-spawning-of-indian-unicorns-in-2022-122042000200_1.html> accessed 20 June 2022