Union Budget 2022–23

Impact on the VC and start-up ecosystem and industry reactions

Foreword

Bhavin Shah,
Partner, Deals

With a **vision for India@100**, Union Budget 2022 has unveiled certain significant incentives to ensure acceleration and to reaffirm commitment to Atmanirbhar Bharat.

Setting up expert committee to curb regulatory or other frictions that hamper scaling up investments through Venture Capital (VC) and Private Equity (PE) is a welcome move.

Capping the surcharge on long-term capital gains at 15% will significantly help start-up founders and individual investors.

The **extension** of **time limits** for newly set-up **manufacturing** companies and **start-ups** to be eligible for a concessional tax regime are big positives, as these sectors have become **crucial contributors** to India's growth story.

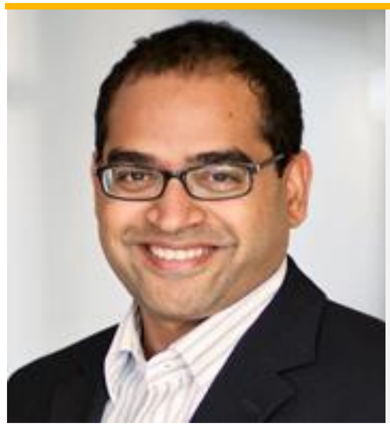
The announcement to introduce **Digital Rupee** through blockchain and other technologies is a forward-looking step.

The continued **focus** on investments in **infrastructure** sector and **encouraging private investments** will have a multiplier effect on the economy.

Please read our report to know more and gauge the industry reaction.

Venture capital (VC) initiatives

- An **expert committee** is proposed to be set-up to examine frictions and suggest appropriate measures to scale up VC and private equity (PE) investments.
- The Government will **promote thematic funds to encourage important sunrise sectors** such as climate action, deep tech, digital economy, pharma and AgriTech. Such funds will have Government share limited to 20% and will be managed by private fund managers.



The announcement of an expert committee to address the issues of the VC/PE community is a positive step and will increase the confidence of investors. The focus on areas such as **deep tech and green energy should also help open up significant opportunities** for investment and employment generation.

Niren Shah, Managing Director and Head, Norwest India

Surcharge on long term capital gains (LTCG) limited to 15%

- Gains arising on transfer of long-term capital assets (except shares of listed companies on which Security Transaction Tax has been paid) by individuals and HUF were liable to a higher surcharge ranging between 15–37% depending on the quantum of income.
- To give a boost to founders and investors of start-ups, it is proposed to limit the **surcharge rate on transfer of any long-term capital assets to 15%** with effect from 1 April 2022.
- **Bonus stripping** on units of **InvIT or REIT or AIF** is **restricted** now in addition to mutual fund units.
- **Dividend stripping** on units of **InvIT or REIT or AIF** is also **restricted** now in addition to shares and mutual fund units.

This is a welcome step by the Government and will **boost investor sentiment** and **promote more investment into start-ups**.

Smeer Chopra, CFO, Lenskart

Virtual Digital Assets (VDA) bought under purview of taxation

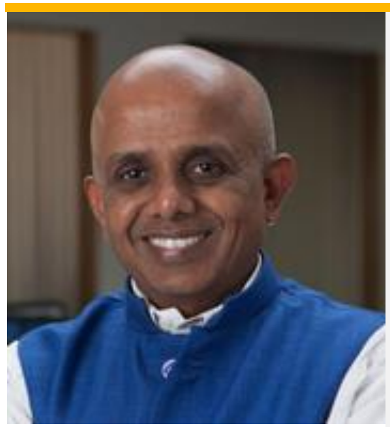
- **VDA have been defined to include cryptocurrencies, non-fungible tokens** and any other asset as may be notified.
- Income from transfer of VDA will be **taxable at 30%** irrespective of the period of holding. **No deduction** except cost of acquisition will be allowed while computing income from transfer of VDA. **Loss on sale of VDA cannot be set off** against any other income.

The Government's continued focus on removing ambiguity, improving productivity and processes. and minimising litigation is laudable. While the tax rate on digital assets transactions could have been more competitive, it is **helpful to see a definitive framework around taxation of the digital ecosystem**.

Amit Mehra, CFO, Lightspeed India Advisors

Drone, Battery Swapping and Agri Finance

- Start-ups will be promoted to facilitate ‘Drone Shakti’ through varied applications and for **drone-as-a-service**. **Defence R&D will be opened up to start-ups,** industry and academia.
- National Bank for Agriculture and Rural Development (NABARD) will facilitate a fund under the **co-investment model to finance start-ups for agriculture and rural enterprise** relevant to the farm produce value chain.



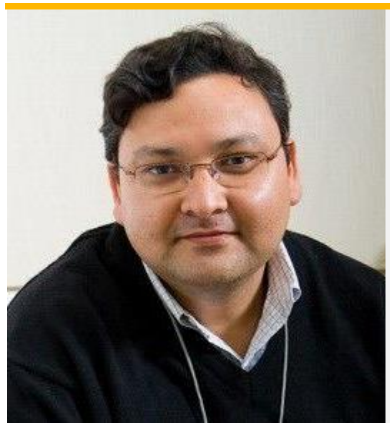
The Government's announcement to support sunrise sectors such as artificial intelligence (AI), drones, space tech and energy storage through a collaborative approach in R&D is commendable and should help the country move to the next level of technology development. Also, promoting a **battery swapping policy to accelerate the growth of EVs** is a very important initiative.

The proposal to cap the surcharge on LTCG brings welcome relief. However, we hope that the industry’s long-standing demand to bring down tax on investments in private companies from 20% to 10% on par with listed investments will be addressed through the expert committee.

TCM Sundaram, Founder, Chiratae Ventures

Extension of timeline for claiming concessional rate or exemption

- Period of incorporation of eligible start-ups for claiming existing **profit-linked deductions for 3 years extended up to 31 March 2023**
- Similarly, last date for **commencement of manufacturing** for availing lower corporate tax rate extended **up to 31 March 2024**



Very positive budget. **Quantum of capex money set aside is significant** and, coupled with tax buoyancy, this augurs well for the economy.

Aditya Pandey, CFO, Udaan

Loans or borrowings bought under purview of unexplained cash credits

- Section 68 imposes obligation on assessees to satisfactorily explain credits in the books of accounts. While a specific onus to explain the credits was cast for share capital, judicial rulings had held such onus does not extend to loan and borrowings.
- It is now proposed to bring **loans and borrowings** within the purview of this section and the same shall be **treated as explained only if the nature and source** of such sum is also **explained in the hands of the lender or creditor.**

Overall, the budget has been **very positive** for the start-up ecosystem, but explaining the sources of funds for borrowings will cast **more obligation and obtaining** sources of **money from lenders would be difficult**.

Ruchit Agarwal, CFO and Cofounder, CARS24

Concessional rate of tax on foreign dividends withdrawn

- **Dividend** received by an Indian company from a **foreign** company in which it holds 26% or more is taxable at a concessional rate of **15%**.
- It is **proposed to withdraw this benefit**, thereby taxing such dividend at the applicable corporate tax rate.

Overall, the budget is **supportive towards the technology sector** and will provide a **boost to sunrise sectors** such as AI, drones, space tech and EV. However, repatriation of funds from overseas subsidiaries will now become **costlier for start-ups who have heavily invested in overseas** countries.

Abhishek Gupta, CFO, OYO

Other direct tax proposals

- To reduce the litigation burden and costs of repetitive issues, tax authorities **may not file an appeal for a litigation where a similar question of law is pending before the High Court or the Supreme Court** for the assessee himself or another assessee till such pending appeal is disposed off.

- To encourage voluntary tax compliance, taxpayers have been **allowed to furnish updated tax returns within 24 months** from the end of the relevant assessment year upon payment of 25% or 50% as additional tax, in prescribed cases.

- **Entities going through business reorganisation** like mergers and demergers are required **to modify past tax returns**. This is a welcome move as it removes hardship faced by taxpayers in modifying their tax returns for giving effect to the retrospective reorganisation orders.

- To ensure transparency and widen the tax base, **any benefit or perquisite, whether convertible into money or not**, arising from business or profession (other than salary payments) would now be **subject to withholding tax @ 10%,** under the newly inserted Section 194R. This would increase the compliance obligations.

Overall reactions to the budget

Overall, a **very positive budget**. Continues with consistency of policy framework – capex spending, fiscal targets and no major tax tinkering. Thinking on **digital initiatives and financial inclusion proposals is a big win**.

Vaibhav Goel, CFO, Elevation Capital (India)

A very **growth-focused budget** and heartening to see several initiatives on building infrastructure of the future such as 5G roll-out, digital currency by the RBI, urban planning, domestic manufacturing and the start-up ecosystem. The continued focus on education and upskilling, the digital healthcare ecosystem and R&D should **boost employment and overall consumption**. The commitment to the domestic fund industry though **Government-sponsored thematic funds is also a welcome move**.

Dipanjan Basu, Partner and CFO, Fireside Ventures

Overall reactions to the budget

The Government's proposals on socioeconomic aspects, including extending the date of incorporation for eligible start-ups to avail tax benefits and COVID relief measures with respect to funds received by taxpayers for treatment, are appreciated. Capping of surcharge on LTCG to residents is a welcome move.

Bishnu Hazari, CFO, Curefit

The Government's continued focus on ease of doing business and the **reduced effective tax on capital gains should encourage more investments from the VC industry**. We also welcome the various initiatives announced to support green energy and the move to make GIFT-IFSC an international hub for education and global capital.

Abhinav Jain, Partner, Gaja Capital

Overall reactions to the budget

A **well-balanced, futuristic and inclusive budget**! Enhanced focus on digital and technology across sectors, **clarity on taxability of VDA** and introduction of digital rupee, accelerated corporate exit and **reduction of surcharge on LTCG will go a long way** in strengthening the start-up ecosystem.

Amit Jhunjhunwala, CFO, Accel Partners

Government initiatives to **support FinTech and the digital banking ecosystem** in India are commendable and should enhance the overall reach to the masses.

Vivek Veda, CFO, KreditBee

Overall reactions to the budget

The budget has been **balanced and growth oriented** with a focus on capital and infrastructure expenditure. This is certainly going to **aid the development of MSMEs and the start-up ecosystem** in the country.

BM Tambakad, Director, FreshToHome

Extending the time limit to set up a manufacturing facility to claim a lower tax rate of 15% is a welcome move and will **promote setting up of new manufacturing facilities**.

Vishal Chaudhary, Cofounder, Zetwerk

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