

Startup and Government Support Available to Them – A Comprehensive Guide

1. Introduction – India's Startup Boom and Policy Push

India has emerged as a **global hub for innovation**, ranking as the **3rd largest startup ecosystem** worldwide. As per the Ministry of Commerce & Industry, more than **1,25,000 startups** have been officially recognised by the **Department for Promotion of Industry and Internal Trade (DPIIT)** as of 2025.

The Government recognises that startups are engines of job creation, technology adoption, and export growth. Through initiatives like the **Startup India Action Plan**, the aim is to:

- Remove regulatory bottlenecks.
- Provide tax incentives.
- Improve funding access.
- Build a robust support ecosystem through incubation, mentorship, and infrastructure.

However, **awareness gaps** and **compliance complexities** often prevent entrepreneurs from leveraging these opportunities. At **Anil Prajapat & Co.**, we regularly assist founders in navigating these schemes and ensuring they receive every eligible benefit — right from inception to scaling.

2. Legal Definition of Startup in India

As per the **DPIIT Notification No. G.S.R. 127(E) dated 19th February 2019**, a business entity is recognised as a “Startup” if it meets all the following criteria:

Entity Type

- **Private Limited Company** (under Companies Act, 2013).
- **Limited Liability Partnership (LLP)** (under LLP Act, 2008).
- **Registered Partnership Firm** (under Partnership Act, 1932).

Period of Existence

- Upto **10 years** from the date of incorporation/registration.

Annual Turnover Limit

- **Not exceeding ₹100 crore** in any financial year since incorporation.

Innovation & Scalability Requirement

- Must be working towards **innovation, development, deployment, or commercialisation** of new products, processes, or services.
- Should have **high potential for employment generation or wealth creation**.

Exclusions

- Entities formed by **splitting up or reconstruction** of an existing business are not eligible.

At **Anil Prajapat & Co.**, we ensure startups structure their entity in a way that meets these eligibility norms from day one — saving both time and cost in future compliance.

3. Government Support Framework for Startups

The Government support is structured under **central schemes, funding programs, and sector/state-specific incentives**.

A. Startup India Initiative (Flagship Program)

Launched: 16 January 2016

Nodal Ministry: Ministry of Commerce & Industry, DPIIT

Key Benefits:

1. **Tax Holiday [Section 80-IAC, Income-tax Act, 1961]**
 - 100% deduction of profits for **3 consecutive financial years** out of the first **10 years** from incorporation.
 - Only for **Private Limited Companies or LLPs** incorporated after 1 April 2016 and before 1 April 2024 (date may be extended via Finance Act amendments).
 - Must have **DPIIT Certificate** to claim.
2. **Angel Tax Exemption [Section 56(2)(viib)]**
 - No tax on share premium received from resident investors, if DPIIT-recognised and conditions met.
3. **Self-Certification Compliance**
 - Under **6 Labour Laws** (e.g., Industrial Disputes Act, Contract Labour Act) and **3 Environmental Laws** (e.g., Water Act, Air Act).
4. **Intellectual Property Rights (IPR) Benefits**
 - **80% rebate on patent filing fees** and **50% rebate on trademark filing fees**.
 - Fast-track examination of patents.

Our role: We at **Anil Prajapat & Co.** guide clients through the entire DPIIT recognition process, prepare tax exemption applications, and secure IPR rebates by handling all procedural requirements end-to-end.

B. Fund of Funds for Startups (FFS)

Corpus: ₹10,000 crore (managed by SIDBI).

- Government does **not invest directly** in startups.
- Funds are disbursed to **SEBI-registered Alternative Investment Funds (AIFs)**, which then invest in eligible startups.
- Over ₹7,500 crore already committed to various AIFs as of 2025.

We assist startups in **connecting with AIF networks**, preparing investor-ready documentation, and ensuring compliance with funding terms to prevent dilution or contractual disputes.

C. Credit Guarantee Scheme for Startups (CGSS)

Purpose: Collateral-free debt funding.

- Operated by **National Credit Guarantee Trustee Company (NCGTC)**.
- Government provides a **guarantee cover** for loans extended by Member Lending Institutions (MLIs) like banks and NBFCs.
- Loan amount eligibility and guarantee cover % vary as per MLI guidelines.

At Anil Prajapat & Co., we coordinate with banks/NBFCs to secure this funding, ensuring the guarantee process is seamless and documentation is accurate.

D. Atal Innovation Mission (AIM)

- **NITI Aayog-led program** to promote innovation and entrepreneurship.
- Components include:
 - **Atal Incubation Centres (AICs)** – provide workspace, mentorship, and funding linkages.
 - **Atal Tinkering Labs (ATLs)** – school-level innovation labs.
 - **Atal New India Challenges** – grants for product development in priority sectors.

We provide **legal and tax structuring support** for startups incubated under AIM to maximise grant utilisation while maintaining compliance.

E. State-Level Startup Policies

Many states have separate **startup policies** offering:

- Seed funding.

- Interest subsidies on loans.
- Rental reimbursement for coworking spaces.
- Additional tax benefits.

Examples:

- **Rajasthan iStart** – financial incentives + mentoring support.
- **Gujarat Startup Policy** – seed support up to ₹30 lakh + monthly sustenance allowance.
- **Karnataka Startup Policy** – R&D grants and patent cost reimbursement.

We have successfully **registered and claimed benefits** for multiple clients across these state policies, helping them access dual benefits — central + state.

4. Tax & Compliance Benefits in Detail

Benefit	Provision	Eligibility	Remarks
Tax Holiday	Section 80-IAC	DPIIT-recognised, new entity, turnover ≤ ₹100 crore	3 out of first 10 years
Angel Tax Exemption	Sec 56(2)(viib)	Share premium from resident investors	Must apply via DPIIT portal
Capital Gains Exemption	Sec 54GB & 54EE	Investment in notified funds or startup equity	Lock-in conditions apply
ESOP Tax Deferral	Sec 156(1A) Proviso	DPIIT-recognised startups	Deferral up to 5 years/exit
Public Procurement Relaxations	GFR 2017	DPIIT-recognised startups	No prior turnover/experience norms

Our tax team at **Anil Prajapat & Co.** not only claims these benefits but also **defends them before the authorities** in case of scrutiny or disallowance.

5. Challenges and Pitfalls

1. **Procedural Delays** – DPIIT applications may get delayed if documents are incomplete.
2. **Misinterpretation of Innovation Criteria** – Many applicants are rejected for failing to show genuine innovation.
3. **Funding Bottlenecks** – FFS is indirect, so finding an AIF investor is necessary.
4. **Tax Claim Rejections** – Due to missing DPIIT approval or improper return filing.

With **Anil Prajapat & Co.**, these pitfalls are minimised — we ensure applications are error-free, innovation justifications are well-drafted, and funding discussions are investor-friendly.

6. How Anil Prajapat & Co. Adds Value

We act as a **strategic partner** for startups by:

- Structuring the business entity for **tax efficiency and compliance eligibility**.
- Preparing and filing **DPIIT recognition applications** with strong innovation documentation.
- Advising on **funding routes** — equity, debt, grants.
- Providing **continuous compliance monitoring** to prevent benefit loss.
- Representing before **Income Tax, GST, and DPIIT authorities** for exemption approvals and dispute resolution.

7. Conclusion

Government schemes for startups are **generous but underutilised**. The key lies in **timely recognition, proper documentation, and strategic planning**. With India pushing for “Viksit Bharat 2047”, the startup sector will play a pivotal role — and those who align with government programs today will be tomorrow’s leaders.

Action Point: If you are a founder or planning to launch a venture, **Anil Prajapat & Co.** can help you unlock every possible government benefit, avoid costly mistakes, and accelerate your growth.