

Incentives for MSME sector expected to result in credit bank for start-ups

SANGEETHA CHENGAPPA
K GIRIPRAKASH

Bengaluru, February 2

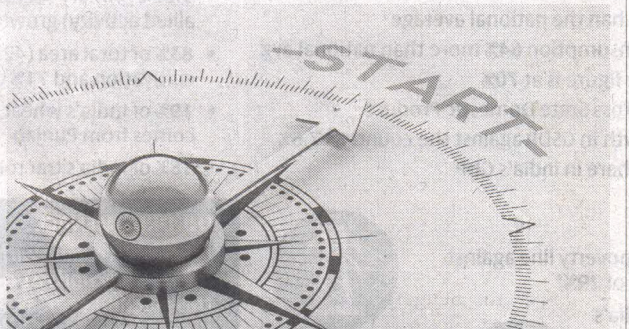
The incentives announced for the MSME sector in this year's Budget, combined with the entire windfall from demonetisation, is expected to result in increased credit uptake and could take the form of a credit bank for start-ups.

"Whether it will be in terms of an institutional formation such as a credit sort of a bank, or through a government institution or a public-sector bank, needs to be seen," Vidhya Shankar, executive vice president, Grant Thornton, told *BusinessLine*.

In the Budget, the Finance Minister also announced a 5 per cent reduction in income tax to 25 per cent, for MSMEs with an annual turnover of up to ₹50 crore.

According to Pranay Bhatia, Partner - Direct Tax, BDO India, the MAT (Minimum Alternate Tax) credit entitlement, which has been extended to 15 years from the earlier 10-year period, will incentivise credit availability to start-ups.

"The requirement of a promoter's continuous holding of 51 per cent for voting



The FM announced a 5% reduction in income tax to 25%, for MSMEs with an annual turnover of up to ₹50 crore SHUTTERSTOCK.COM

rights, under Section 79 of the Income Tax Act, 1961, to carry forward the losses in the business, has been relaxed, subject to the original promoters of the start-up continuing to hold their shareholding in the venture," added Mahesh Jaising, Partner, BMR & Associates LLP.

The increasing of the allocations towards schemes such as M-SIPS (Modified Special Incentive Package Scheme) and the Electronic Development Fund to ₹745 crore in 2017-18 will benefit IoT start-ups.

The much anticipated waiver of MAT, removal of angel tax for start-up investors, and aligning the capital

gains taxation regime for listed companies and start-ups, were not announced by the FM, disappointing start-up industry stakeholders.

'Innovative' tag

Another likely announcement that the Nasscom expected from the Budget – for the government to revoke the need for start-ups to be certified as 'innovative' in a format specified by the DIPP in order to be eligible for Income Tax exemptions – also did not come through.

"The DIPP is working on simplifying the process for notifying innovative start-ups," said a hopeful KS Viswanathan, Vice-President, Nasscom.