

**1. Regulatory Easing**

Recognizing that disruptive business models and innovative technologies may face regulatory hurdles, DPIIT has held extensive consultations with all the stakeholders and has worked with relevant Government Agencies to make regulatory changes. 36 such regulatory changes, to enhance ease of doing business, ease raising capital and reduce compliance burden have been undertaken. The list of regulatory reforms is enclosed at Annexure – A

**2. Participation of States in Strengthening Startup Ecosystems**

DPIIT is engaging intensively with the State Governments to develop strong Startup ecosystems across the country.

State/UT Startup Ranking Framework was launched on 6<sup>th</sup> February, 2018. The key objective of the Startup States Ranking Framework 2018 (SRF-2018) was to encourage States and UTs to take proactive steps towards strengthening the Startup ecosystem within their jurisdiction. There were 38 action points categorized into 7 broad areas such as Startup Policy and Implementation, Incubation support, Seed Funding, Angel and Venture Funding, Simplification of Regulations, Easing Public Procurement and Awareness & Outreach. The ranking methodology aims to create a healthy competition among States to further learn, share and adopt best practices. A compendium of good practices was also launched, listing 95 good practices implemented by various State Governments. Knowledge Workshops were held to assist States in formulating policies and executing appropriate programs. Visits to USA and Israeli ecosystems were facilitated for State Government representatives to enable the transfer of information and knowledge from the best ecosystems of the world. The final rankings of SRF 2018 were announced on 20th December, 2018 and the States were felicitated by DPIIT. 27 States and 3 Union Territories participated in the exhaustive ranking exercise.

As a result of SRF 2018, new Startup policies were launched, old and archaic laws were abolished, new Government orders were issued and many Startups were supported. Some of the major impacts of the ranking exercise include Implementation of Startup Policies in 25 States, Seed Funding to 3213 Startups; Funding of 163 Startups through Venture Funds; 17 States announcing incentives for women entrepreneurs; Incubation area of 10.2 lakh Sq.ft supported by State Governments; Establishment of 596 Entrepreneurship Cells across 340 districts;

Registration of 1996 mentors across 19 States and organization of 233 Startup events across 21 States.

The Department has launched States' Startup Ranking Framework for 2019 with the key objective to encourage States and UTs to take proactive steps towards strengthening the Startup ecosystems within their jurisdictions. To establish uniformity and ensure standardization in the ranking process, States and UTs have been divided into Category-X and Category-Y, wherein the Y category entails all UTs, except Delhi, and all states in North East India, except Assam ; Category X contains all other states.

State Ranking Framework 2019 is spread across 7 areas of intervention with a total of 30 action points, as compared to the 38 action points in the Previous Year State Ranking Framework. The framework aims to evaluate States/UTs in a balanced and transparent manner and has thus made documentary evidence of compliance on action points by the State/UT Government a pre-requisite for collection of feedback. The overall score attributed to States and UT's, 76% is based on the feedback collected from beneficiary startups. Scoring has been done on the basis of the feedback received. The consideration period (the period in which compliance on action points will be considered for the evaluation process) for the 2019 ranking exercise is made from 1st May 2018 to 30th September 2019.

As a part of capacity development of the state governments, 3(three) two-day knowledge exchange workshops were organized in Jaipur, Mumbai, and Kochi. Video conferences were also conducted to help the states and UTs in resolving their queries. A delegation of government officials of more than 15 states was a part of International Exposure Visits conducted in USA and Germany to understand and learn key Startup initiatives in these successful Startup nations.

This was followed by evaluation of documentary evidence by the states by an Evaluation Committee, which constituted a mix of experts from private and government organisations. A parallel exercise of feedback collection was conducted by an external agency appointed by DPIIT. The beneficiary data provided by States was collated across each applicable action point. A total of 25 States/UTs participated in this exercise and more than 60,000 calls have been made. Feedback was collected from more than 6000 beneficiaries in more than eleven languages.

All the exercises under State Ranking Framework 2019 are now complete and the results have been finalized.

### **3 Startup Yatra**

DPIIT has also made efforts to engage with the Startup ecosystem through extensive outreach via bootcamps, social media, print and digital platforms. The Startup India Yatra is an initiative that travels to Tier 2 and Tier 3 cities of India to search for entrepreneurial talent and help develop Startup ecosystem. Day long bootcamps are conducted which include awareness workshops, idea validation and pitching sessions. Startup Yatra has been conducted across 23 States in 207 districts impacting 78346 aspiring entrepreneurs. A total of 1,424 incubation offers have been given to the startups as a result of this initiative.

### **4 Grand Challenges**

DPIIT has engaged with various Government Departments and assisted them in launching Startup challenges in various sectors and domains.

- DPIIT launched the Ease of Doing Business (EoDB) Grand Challenge inviting innovative ideas from individuals, startups or other enterprises to implement Artificial Intelligence (AI), Big Data Analytics, Internet of Things (IoT), Blockchain and other cutting-edge technologies, for re-engineering related Government processes. 789 startups application received through Startup India website were screened and winners have been announced for problem statements.
- Under the Swachh Bharat Grand Challenge, Startup India worked with Ministry of Water and Sanitation to recognise Startups spearheading novel innovations in the field of waste management, water management, air quality management and sanitation. The initiative has helped the Ministry to identify relevant solutions for environmental challenges. Two startups under each sector, have been awarded cash grants.
- DPIIT in collaboration with Ministry of Agriculture has launched an Agriculture Grand Challenge inviting solutions on 12 problem statements. Winners of the challenge have received mentorship, free of cost incubation for a period of 3 months, opportunities to conduct pilot programs and funding support in the form of grants.
- Central Reserve Police Force (CRPF), through Startup India CRPF Grand Challenge challenge was looking for new concepts & innovations in the areas identified. The objective was to address critical issues hampering growth of the security sector in the country by leveraging technical expertise and best

fundamental concepts thus helping talented and creative innovators to pursue promising avenues at the frontier of technology. Demo day was organized to validate the products of 16 startups. INR 2 lakhs for winner (one winner per problem statement) to be disbursed and product trial opportunities with CRPF to be provided to the startups.

- Ayushman NHA in partnership with Startup India launched the Ayushman Bharat PMJAY Startup Grand Challenge as a call to action for the Indian start-up community to generate cutting-edge solutions for supporting the National Health Authority towards more effective implementation of Ayushman Bharat Pradhan Mantri Jan Arogya Yojana (AB-PMJAY) and empowering 500 million people to gain access to affordable healthcare. Cash price of INR 2 lakhs for winners per problem statement to be disbursed along with mentorship and facilitation for funding and procurement including opportunities for testing and validation.
- Startup India launched Single Use Plastic Grand Challenge to incentivize innovators and Startups to develop design solutions across three problem statements. Through this challenge, first winners for each problem statement (3 startups) received cash price of INR 3 lakhs and second winners for each problem statement (3 startups) received cash price of INR 2 lakhs
- Ministry of New and Renewable Energy (MNRE) launched a unique opportunity for startups and innovators to solve some key challenges being faced by in the Renewable energy sector in India. MNRE identified key problem statements which range from innovative use of renewable energy for enhancing quality of life to energy solutions for regions with difficult terrain. Cash prizes to be given for top three winners by MNRE.
- The Department of Animal Husbandry and Dairying, in partnership with Startup India, launched the 'Animal Husbandry Startup Grand Challenge', to scout for innovative and commercially viable solutions to address the problems faced by the animal husbandry and dairy sector. The challenge was launched by Hon'ble Prime Minister, Shri Narendra Modi, on 12th September, 2019 at a national animal disease control programme in Mathura. The challenge was open for application to all startups with unique solutions for six problem statements. The Department of Animal Husbandry and Dairying would provide innovative startups with solutions to the problem statements with cash grants, mentorship and incubation offers.
- Ministry of Textiles along with Startup India launched a Grand challenge for startups in January 2020. The theme targets the single use plastic bag alternative and

incentivizes innovators and Startups to develop design solutions. The solutions must also have the same or greater functionality as the products they are designed to replace and must be designed with current production methods in mind. Under various problem statements, the challenge aims to identify and shortlist innovative enterprise stage Startups and provide them with the cash rewards. The challenge is split in 2 problem statements

- o Single Use plastic alternative
- o Multi Use plastic alternative

Apart from channelizing resources from the Government, Market opportunities and mentorship have been provided by way of organizing Corporate Grand Challenges in partnership with Softbank, Whatsapp, Western Digital, International Accelerator etc.

## **5 International Bilateral Cooperation**

One of the key objectives under the Startup India initiative is to help connect Indian Startup ecosystems to global Startup ecosystems through various engagement models. International bilateral cooperation with countries having strong Startup ecosystems, e.g., Israel, Singapore, Portugal and Sweden, have been entered into by Startup India Hub to facilitate market access and promote investments.

## **6 Encouraging Women Entrepreneurship**

Startup India has launched a training program for aspiring and existing women entrepreneurs - WING across the country. This will focus on conducting workshops, providing mentorship support and an opportunity to present their startups/ideas to stakeholders of the startup ecosystem. The workshops will provide training on the following topics:

- o Legal and Compliance
- o IP and Patent Protection
- o Financial Management
- o Marketing Prowess

These are 2-day workshops providing domain specific knowledge and one-on-mentorship after every session. 17 workshops have been conducted across Kerala, Telangana, Karnataka, Punjab, Assam, Nagaland, Odisha and Rajasthan till February 2020. The aim is to conduct ~140 workshops across the country and train ~7000 women.

To promote women entrepreneurship, SIDBI has been directed to reserve 10% of the Fund of Funds for women led startups. Further, all the Alternative Investment Funds (AIFs) where SIDBI takes equity have been mandated to contribute 20% in businesses which are women led, women influenced or women employment or women consumption centric.

It has been decided that in all programs organized by DPIIT, at least one third of beneficiaries shall be women. Efforts are being made to see that other Central Government Departments and State Governments having specific schemes for start-ups and entrepreneurs shall reserve at least one third of the benefits for women. To promote flow of both equity and debt to women led startups, interactions of such women entrepreneurs with venture funds supported by SIDBI and lending institutions including banks are being organized by inviting applications on the 'Startup India Hub' and inviting selected women entrepreneurs, after a process of screening by experts, to interact with these institutions for both equity/debt funding. Specific and suitable entrepreneurship development programmes for women led startups throughout the country are being designed by ascertaining the training/skilling needs of the target groups. To meet the advisory needs of the start-ups led by women, legal, tax, financial and other service providers are being sought to get them connected with each other through the Startup India Hub.

**Regulatory Reforms**  
**For Enabling Small Businesses or Startups**  
**(Since January, 2016)**

**Amendments made by RBI:**

1. Startup enterprises permitted to access loans under ECB framework up to USD 3 million (Oct, 2016)
2. A SEBI registered Foreign Venture Capital Investor (FVCI) may contribute up to 100% of the capital of an Indian company engaged in any activity mentioned in Schedule 6 of Notification No. FEMA 20/2000, including startups irrespective of the sector in which it is engaged, under the automatic route. (Aug, 2017)
3. An Indian startup having an overseas subsidiary, may open a foreign currency account with a bank outside India for the purpose of crediting to it foreign exchange earnings out of exports/ sales made by the said entity and/ or the receivables, arising out of exports/ sales, of its overseas subsidiary (June, 2016)
4. SOFTEX form filed by software exporters moved online (Feb, 2019)

**Amendments made by SEBI in SEBI (Alternative Investment Funds) Regulations, 2012:**

5. Lock in period for investments made by an Angel Fund reduced to 1 year from 3 years as amended by the SEBI (Alternative Investment Funds) (Amendment) Regulations, 2016, w.e.f. 04-01-2017
6. Angel Funds are allowed to invest in overseas venture capital undertakings upto 25% of their investible corpus in line with other AIFs as provided by the SEBI (Alternative Investment Funds) (Amendment) Regulations, 2016, w.e.f. 04-01-2017
7. The upper limit for number of angel investors in a scheme is increased from forty nine to two hundred as amended by SEBI (Alternative Investment Funds) (Amendment) Regulations, 2016, w.e.f. 04-01-2017
8. The requirements of minimum investment amount by an Angel Fund in any venture capital undertaking is reduced from fifty lakhs to twenty five lakhs as amended by SEBI (Alternative Investment Funds) (Amendment) Regulations, 2016, w.e.f. 04-01-2017
9. Issue of the “Operating Guidelines for Alternative Investment Funds in International Financial Services Centres” by SEBI (Nov, 2018)

### **Amendments made by Ministry of Corporate Affairs in Companies Act:**

10. The financial statement, with respect to private company (if such private company is a start-up) may not include the cash flow statement (June, 2017)
11. A private company, which is considered as a start-up for a period of five years from the date of its incorporation, is also allowed to accept deposits from members without any restriction on the amount (Sep, 2017)
12. Startup defined for the purpose of Companies Act, 2013 - As per the definition, a start-up company means a private company incorporated under the Companies Act, 2013 and recognised as a “start-up” in accordance with the notification issued by the Department for Promotion of Industry and Internal Trade (June, 2017)
13. Exemption from procedural compliance (e.g. such as issue of an offer circular or creation of a deposit repayment reserve) for raising deposits from shareholders (June, 2017)
14. In relation to a private company (if such private company is a start-up), the annual return shall be signed by the company secretary, or where there is no company secretary, by the director of the company (June, 2017)
15. A private company (if such private company is a start-up) is required to conduct at least one meeting of the Board of Directors has been conducted in each half of a calendar year and the gap between the two meetings is not less than ninety days (June, 2017)
16. Name Reservation for Company incorporation: MCA has substituted Rule 8, Companies (Incorporation) Rules, 2014 with Companies (Incorporation) 5th Amendment Rules, 2019 which provides for new regulations on resemblance with an existing company name, new categories of undesirable names of a company and list of words which can be used only after obtaining approval from Central Government (May, 2019)
17. Amendment in Companies (Share Capital and Debentures) Rules, 2014: The Ministry of Corporate Affairs issued a notification on 16th August, 2019 increasing the period in which ESOPs could be granted to promoters and directors (holding more than 10% equity) of Startups, from 5 years to 10 years from the date of incorporation and thereby aligned the provisions of the Companies (Share Capital and Debentures) Rules with the provisions referred to in the DPIIT notification dated 19th Feb, 2019.

The notification also enhanced the limit on shares with Differential Voting Rights in the Company from 26% of the total post-issue paid up equity capital of the Company to 74% of the total voting power. Further, the condition for the company to have consistent track record of distributable profits for the last three years for issue of DVR shares has been removed.

18. Corporate Social Responsibility Funds: In reference to section 135 of the Companies Act 2013, Schedule VII has been amended to include Contribution to incubators funded by Central Government or State Government or any agency or Public Sector Undertaking of Central Government or State Government, and contributions to public funded Universities, Indian Institute of Technology (IITs), National Laboratories and Autonomous Bodies (established under the auspices of Indian Council of Agricultural Research (ICAR), Indian Council of Medical Research (ICMR), Council of Scientific and Industrial Research (CSIR), Department of Atomic Energy (DAE), Defence Research and Development Organisation (DRDO), Department of Biotechnology (DBT), Department of Science and Technology (DST), Ministry of Electronics and Information Technology) engaged in conducting research in science, technology, engineering and medicine aimed at promoting Sustainable Development Goals (SDGs). (October 2019)
19. As part of Government of India's Ease of Doing Business (EODB) initiatives, the Ministry of Corporate Affairs has launched a new integrated Web Form christened 'SPICe+' replacing the existing SPICe form. SPICe+ would offer 10 services by 3 Central Govt Ministries & Departments (Ministry of Corporate Affairs, Ministry of Labour & Department of Revenue in the Ministry of Finance) and One State Government (Maharashtra), thereby saving as many procedures, time and cost for Starting a Business in India and would be applicable for all new company incorporations w.e.f. 23rd February 2020. SPICe+ has two parts: Part A-for Name reservation for new companies and Part B offering a bouquet of services viz. (i) Incorporation (ii) DIN allotment (iii) Mandatory issue of PAN (iv) Mandatory issue of TAN (v) Mandatory issue of EPFO registration (vi) Mandatory issue of ESIC registration (vii) Mandatory issue of Profession Tax registration (Maharashtra) (viii) Mandatory Opening of Bank Account for the Company and (ix) Allotment of GSTIN (if so applied for)

#### **Amendments made by Department of Revenue in Income Tax Act:**

20. In the case of a domestic company, where its total turnover or the gross receipt in the previous year does not exceed four hundred crore rupees, income tax shall be charged at the rate of 25 percent of the total income (Feb, 2018)
21. Definition of eligible business as stated in Section 80-IAC aligned with Startups definition (April, 2018)
22. Introduction of Section 54EE in the Income Tax Act, 1961: Exemption from tax on long-term capital gain if such long-term capital gain is invested in a fund notified by Central Government. The maximum amount that can be invested is INR 50 lakh (May, 2016)
23. Amendment in Section 54GB of Income-tax Act: Exemption from tax on capital gains arising out of sale of residential house or a residential plot of land if the amount of net consideration is invested in prescribed stake of equity shares of eligible Startup for utilizing the same for purchase of specified asset (Feb, 2016)
24. MAT tax credit allowed to be carried forward up to fifteenth assessment years instead of ten assessment years (2017)
25. Exemption under section 80-IAC of Income Tax Act: Exemption to eligible Startup for any 3 consecutive assessment years out of 7 years (earlier 5 years) beginning from the year in which such eligible Startup is incorporated (April, 2018)
26. Exemption from tax under the provisions of section 56(2)(viib) to Startups for issue of shares above fair market value on the basis of a self-declaration to the Central Board of Direct Taxes. Here the aggregate amount of paid up share capital and share premium of the startup after issue or proposed issue should not exceed INR 25 Crores (Feb, 2019)
27. Taxation of convertible notes - Period for which a bond, debenture, debenture-stock or deposit certificate was held prior to conversion shall be considered for determining the period of holding of such shares or debentures acquired upon conversion (March, 2016)
28. Amendment in Section 54GB of Income Tax Act w.e.f 1<sup>st</sup> April 2020: (August 2019)
  - a. The condition of minimum holding of 50% of share capital or voting rights in the start-up **relaxed to 25%**
  - b. Extension of period under which benefit under section 54GB from for sale of residential property can be availed up to 31st March, 2021
  - c. Condition restricting transfer of new asset being computer or computer software is to relaxed from 5 years to 3 years w.e.f. 1-4-2020

29. Amendment in Section 79 of Income Tax Act (August 2019): Eligible Startups to carry forward their losses on satisfaction of any one of the two conditions:
- i. Continuity of 51% shareholding/voting power or
  - ii. Continuity of 100% of original shareholders carrying voting power
30. Pass through of losses allowed to Investment Funds i.e. Category I and II AIF similar to pass through of income. These amendments will take effect from the 1st April, 2020 and will, accordingly, apply in relation to the assessment year 2020-21 and subsequent assessment years (August 2019)
31. The investment made by Venture Capital Fund of Category-I AIF in a startup was exempted from the applicability of the provisions of section 56(2)(viib) of the IT Act. This exemption has been extended to all sub-categories of Category-I AIF and Category-II AIF via introduction of "specified fund" in the said section (August 2019)
32. The Finance Act 2020 provides for amendment in section 80-IAC of the Income-tax Act relating to special provision in respect of specified business. The provisions of section 80-IAC, inter alia, provide for a deduction of an amount equal to hundred per cent. of the profits and gains derived from an eligible business by an eligible start-up for three consecutive assessment years out of ten years vis-à-vis the earlier norm of seven years at the option of the assessee and the total turnover of its business does not exceed hundred crore rupees in the previous year relevant to the assessment year for which deduction under this section is claimed. This amendment will take effect from 1st April, 2021 and will, accordingly, apply in relation to the assessment year 2021-2022 and subsequent assessment years. (Feb 2020)
33. The Finance Act 2020 provides for amendment in section 80-IAC of the Income-tax Act relating to special provision in respect of specified business. The provisions of section 80-IAC, inter alia, provide for a deduction of an amount equal to hundred per cent. of the profits and gains derived from an eligible business by an eligible start-up for three consecutive assessment years out of ten years at the option of the assessee and the total turnover of its business does not exceed hundred crore rupees vis-à-vis the earlier norm of twenty-five crore rupees in the previous year relevant to the assessment year for which deduction under this section is claimed. This amendment will take effect from 1st April, 2021 and will, accordingly, apply in relation to the assessment year 2021-2022 and subsequent assessment years. (Feb 2020)

34. The Finance Act 2020 provides for amendment in sections 156, 191 and 192 of the Income Tax Act laying to enable employees receiving specified security or sweat equity share as perquisite under section 17(2)(vi) of an eligible startup referred to in section 80-IAC, to deduct or pay, as the case may be, tax on such income within fourteen days after the expiry of forty-eight months from the end of the relevant assessment year; or from the date of the sale of such specified security or sweat equity share by the assessee; or from the date of the assessee ceasing to be the employee of the person, whichever is earlier, on the basis of rates in force of the financial year in which the said specified security or sweat equity share is allotted or transferred. This amendment will take effect from 1st April, 2020. As per the earlier norms, the said perquisite including ESOPs were taxed in the hands of the employee at the time of exercise of the option.

#### **Ministry of Electronics And Information Technology (Meity)**

35. Removal of clause from Electronic Development Fund stating that if a fund draws from Fund of Funds then they cannot draw from EDF and vice versa (Nov, 2018)

#### **MINISTRY OF COMMERCE AND INDUSTRY**

##### **(Department for Promotion of Industry and Internal Trade)**

36. Amendment in the definition of a Startup by way of a notification issued by DPIIT in this regard. Now, an entity shall be considered as a Startup upto a period of ten years from the date of incorporation/ registration and turnover of the entity for any of the financial years since incorporation/ registration has not exceeded one hundred crore rupees. Earlier, the criteria for period was seven years and turnover was twenty five crore rupees. (Feb, 2019)