



CBDT Directives on Angel Tax

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Why in News?

The [Central Board of Direct Taxes \(CBDT\)](#) has issued a directive aimed at ensuring that [Department for Promotion of Industry and Internal Trade \(DPIIT\)](#) recognized [start-ups](#) are not burdened with unnecessary scrutiny under the revised angel tax provisions in the [Finance Act, 2023](#).

What are the New Tax Directives Related to Start-ups?

- The CBDT has directed its officers to **refrain from scrutinizing the angel tax provisions for start-ups that have received recognition from the DPIIT.**
 - This directive comes in response to concerns raised by **many start-ups regarding scrutiny notices for angel tax.**
- The CBDT has outlined two scenarios regarding recognized start-ups under scrutiny:
 - **Single-Issue Scrutiny:** In cases where scrutiny is initiated solely to determine the applicability of **Section 56 (2) (viib) of the Income-tax Act, Assessing Officers will not conduct any verification during the assessment proceedings.**
 - Instead, the contention of the recognized start-up regarding the issue will be summarily accepted.
 - **Multiple-Issue Scrutiny:** When a recognized start-up is under scrutiny for multiple issues, including the one under Section 56 (2) (viib) of the Income-tax Act, the **applicability of the angel tax provision will not be pursued during the assessment proceedings.**

What is Angel Tax?

- Angel tax is an **income tax levied at the rate of 30.6%** when an **unlisted company issues shares to an investor** at a price higher than its fair market value.
 - **Fair market value** is the price of an asset when buyer and seller have reasonable knowledge of it and are willing to trade without pressure.
- Initially, angel tax was applicable only to investments made by resident investors. The **Finance Act, 2023** extended this provision to include foreign investors as well.
 - This means that when a start-up raises funding from a foreign investor, it will also be counted as income and subjected to taxation.
 - However, DPIIT-recognized start-ups are now **excluded from the angel tax levy.**

Note

In May 2023, the Finance Ministry exempted **investors from 21 countries**, such as the **US, UK, and France**, from the angel tax levy for non-resident investments in Indian start-ups.

What are the Other Major Government's Initiatives Related to Startups?

- [National Initiative for Developing and Harnessing Innovations \(NIDHI\)](#)
- [Startup India Action Plan \(SIAP\)](#)

- [Ranking of States on Support to Startup Ecosystems \(RSSSE\)](#)
- [Startup India Seed Fund Scheme \(SISFS\)](#)

What is the Central Board of Direct Taxes?

- It operates as a statutory authority established by the **Central Board of Revenue Act, 1963**.
 - It forms an integral component of the **Department of Revenue within the Ministry of Finance**.
- It contributes to the **formulation of policies and planning related to direct taxation in India** and oversees the enforcement of direct tax laws through the Income Tax Department.
 - Direct taxes encompass **income tax, corporation tax**, and similar categories.

UPSC Civil Services Examination, Previous Year Questions (PYQs)

Q. What does venture capital mean? (2014)

- (a) A short-term capital provided to industries
- (b) A long-term start-up capital provided to new entrepreneurs
- (c) Funds provided to industries at times of incurring losses
- (d) Funds provided for replacement and renovation of industries

Ans: (b)

Explanation:

- Venture capital is a form of fund for a new or growing business. It usually comes from venture capital firms that specialize in building high risk financial portfolios.
- With venture capital, the venture capital firm gives funding to the startup company in exchange for equity in the startup.
- The people who invest this money are called venture capitalists (VCs). Venture capital investment is also referred as risk capital or patient risk capital, as it includes the risk of losing the money if the venture does not succeed and takes a medium to long term period for the investments to fructify.
- **Therefore, option (b) is the correct answer.**