Original Article
ISSN (Online): 2582-7472

ShodhKosh: Journal of Visual and Performing Arts
June 2024 5(6), 414–419

NAVIGATING ANGELTAX: DEFY AND OPPORTUNITY FOR INDIAN START-UPS

Dr. Shantkumar A. Bangundi[1]

[1] Associate Professor and HOD, Department of Commerce Government First Grade College-Humanbad, Dist Bidar- Karnataka State - India 585 330

DOI
10.29121/shodhkosh.v5.i6.2024.3952

Funding: This research received no specific grant from any funding agency in the public, commercial, or not-for-profit sectors.

ABSTRACT

India is home to the world's 3rd largest start-up ecosystem and has produced a plethora of successful start-ups in the past decade, including BOAT, PAYTM, and OLA. However, the resurgence of the Angel Tax may hinder current growth and prevent India from reaching its goal of becoming the largest start-up ecosystem in the world by 2030. This paper explores impact of Angel tax on Start up in Indian context. Angel tax, introduced aims to curb tax evasion and money laundering. However, its impact on Indian start-ups has been debated. This paper examines the effects of angel tax on start-up funding, growth, innovation, and job creation in the Indian economy over a period of 4 years.

1. INTRODUCTION

A start-up is a budding business Endeavour seeking to establish itself in the market. Hence, it requires adequate capital and financial backing from third parties for leveraging. Banks usually don't lend to start-ups, since they are considered as high-risk investments as per the risk defining criterion maintained by banks. So start-ups often turn to Angel Investors – the affluent individuals that are captivated by the novel idea and support start-ups by offering necessary capital in exchange for convertible debt or ownership equity.

The term Angel Tax was first introduced in the Finance Act, 2012 and became applicable in April 2013. This tax was implemented with a specific purpose in mind to discourage the generation and utilization of unaccounted money through investments in closely held companies.
Angel Tax, in essence, is a financial term that refers to the tax obligations imposed on funds raised by unlisted companies. This occurs through the issuance of shares in off-market transactions, particularly when the funds secured from an investor surpass the fair market value of the company.

The excess realization of money is considered as "Income from Other Sources" and therefore, taxed accordingly underSection56(2)(viib) of the Income TaxAct,1961 ('the Act') and is chargeable at the tax rate applicable to the companies.

Objectives of the study:

- To study the pattern of angel tax collection in India.
- To analyze the trends and Progress of Angel tax on Indian start-ups.
- To offer suggestions in the light of findings.

2. REVIEW OF LITERATURE

S. No	Author	Year	Topic	Objectives	Findings
1	Karuppiah, S., Shanmugam , K.R.	2022	Incidence of Corporate Income Tax: Estimates from Indian Manufacturing Firms.	The purpose of this paper is to examine the incidence of corporate tax on capital and labour in Indian manufacturing sector.	The study shows that, for the manufacturing sector in India for the period 2005-19, the corporate tax has a significant adverse impact on both wages paid to employees and profit after tax. .Capital owners bear 96.3% of the tax burden and labours bear only 3.7%. The adverse effect on wages is slightly higher in public firms than in private firms.
2	Kishor,P.	2020	Analytical Study of Tax Revenue Collection in India.	To examine total tax collectionfrom2013-14to2017-18intermsofdirect tax and indirect tax and its subtypes.	Corporation tax is the major contributor indirect tax revenue collection. General sales tax is the major contributor in indirect tax revenue collection. The contribution of indirect tax in GDP is more than that of direct tax.
3.	Jain,P.	2020	Reforms in Direct Tax Administrate on in India(1991-2016).	To examine the reforms at Administrative level.	The result shows that the success of any tax policy depends to a large extent on efficient tax administration. Which would necessitate minimizing arrears of assessment and collection ,pendency of appeals, tax avoidance and tax evasion and improve taxpayers 'compliance.
4.	Alagappan, S.M.	2019	Indian Tax Structure–An Analytical Perspective.	To study the present tax structure in India and the recent reform undertaken.	Income tax plays an important role as a source of revenue and an effective measure of removal of economic disparity. The state should formulate a comprehensive and cohesive tax system which can balance the different objectives in view of its own requirements and goals.
5.	Jaiswal, K.S.	2019	Taxation Challenges of the E-Commerce Transactions.	To explores the current and possible future trends in E-commerce.	There are clear points of difference between countries over the future direction of the international tax rules on Digital Economy. Some countries are not convinced of the need for change, others believe that change should be targeted at the notion of "user participation", which is often observed as a key characteristic of many highly digitalized businesses. For other countries, any future change should not be limited to "digital firms", but should Also apply to the economy as a whole.
6.	Sachin H.P.	2018	Performance of minimum alternative tax a study of selected companies in Karnataka.	To analyses the role of MAT in increasing revenue to the government exchequer and sector-wise analysis of the tax payment by the companies.	In his study researcher concludes that, on the sector wise corporate tax calculation and tax payment under section115JB seems there is significant difference between the tax collections.

7.	Mohammed A.	2018	A critical analysis of direct taxes in India.	To analyze the performance of direct tax in India.	Government has adopted several initiatives to increase the amount the direct tax revenue. These initiatives were effective up to a certain extent and leads to an increasing trend over the study period. So, attempt should be made to draft new legislation in simple and easy language and well understood by an Ordinary people.
9.	Jaiswal,K.	2017	An analysis of tax regimes of BRICS Countries with Special reference to income tax of	The study focuses to understand and analyze the income tax regime of BRICS countries. To analyze the income tax revenue and thee-taxation	The researcher has found that in terms of income tax revenue, Brazil is the country with highest income tax revenue. In terms of income tax revenue, there is a significant difference in the income tax revenue of corporate and non-corporate assesses of BRICS countries.
			corporate and non-corporate assessee	awareness of the tax payer of BRICS countries.	
10	Pande, P.D.	2017	Corporate tax structure in India and corporate behavior.	To examine the corporate tax Structure in India.	It is widely accepted that in a vast country like India decentralization of Industrial structure and employment creation for unemployed are major consideration of our development strategy. Study shows that these objectives may not be achieved with in the Existing corporate tax structure in India.
11.	Jaiswal,K.	2017	Progressive Evaluation of Direct Tax Revenue in India,	To analyses the direct tax revenue in India and also suggest certain measures to increase the same.	This paper examines the direct tax revenue collected in India. The researcher concluded that there has been increase in the tax revenue but still there are certain loopholes which Need to be improved.
12	Ghuge,N.	2015	Indian tax structure-an analytical perspectie	To analyze the Indian tax structure.	The tax is the major source of revenue for the government, the development of any country's economy largely depends on the tax structure it has adopted .A Taxation Structure which facilitates easy of doing business and having no chance for tax evasion. There is major dependence on indirect taxes for tax collection than the direct taxes.
13.	Samuel, R.	2015	Corporation tax in India a study of compliance cost compliance behavior and Tax evasion in Goa	To study the trend and measure to Buoyancy Of corporate tax in India.	The share of direct taxes in total tax revenue has been gradually increasing. Direct taxes as a % of GDP has been growing and showing a continuous upward trend. The results of our survey show that one of the main reasons is Attributed to frequent changes in the income tax laws of India
14.	Rajeswari K.	2014	The trend and pattern of Income taxation in India.	To examine the income taxation of India.	The origin and evolution of Income Tax, income tax structure expenditure incurred by the Indian government to collect taxes and direct tax GDP ratio. The Direct Tax Collection as a percentage of GDP is doubled as a result of improved tax administration and better tax compliance.
15.	Nagraj G.H.	2010	An Impact of Recent Income Tax Provisions	To examine the tax system prevailing in developed and	Researcher finds that there is little scope for including new areas for increasing tax revenue. Coordinated reforms should be

			on Public Finance an Analytical Study.	developing countries.	undertaken at the central, state and local levels. Strengthen the tax department accountability through better articulation of departmental goals and more budgetary Flexibility and individual accountability.
16.	Smart. M.	2002	Reforming the Direct–Indirect Tax Mix.	To study the changes regarding Direct and Indirect tax composition.	This paper provides a new frame work for evaluating the welfare effects of commodity tax reforms. It is shown that tax reforms are welfare improving if and only if they satisfy the following intuitive property: on average, consumer prices fall for commodities with high marginal excess burdens. The rule is then applied to analyze a shift from differentiated commodity taxation to direct flat-rate taxation of labour income.
17.	Bharat,S.	2002	Management of corporate taxation and tax planning in India.	The purpose of this study is to consolidate, summarize And to give an analytical view about the various provisions of Direct Tax Laws, their administration, implementation and their revenue raising capabilities.	Researcher says that in the light of the critical study of various aspects of corporate taxation in India and in the background of various deficiencies observed it maybe said that pragmatic Tax Reforms including realistic tax brackets, simplification of tax laws and computerization of filing and collection procedures is utmost essential so as to eliminate rampant tax evasion, corruption and harassment of honest tax Payers.

After analyzing the above reviews, researcher came to know that, most of the above research was based on the tax reform, Collection of tax revenue, Challenges and problem of E-taxation, Tax rates, Incidence of corporate income tax, Tax administration, Impact of Direct tax on economic growth of the country and Tax structure of BRICS countries. Further, the concept of angel tax and start-ups was ignored by the researcher in the above reviews. This prompts us to undertake the study on impact of Angel tax on Indian start-ups.

3. METHODOLOGY

In order to unearth, the importance of Angel tax on Start-up in Indian context. The present study has observed following steps. This study conducted was purely based on the secondary data provided by Central Board of Direct Taxes over a period of 4 (2017-21) financial years. Further, in order to draw meaningful results, researcher has employed simple statistical tools to analyze the impact of Angel tax, accordingly findings were evaluated and suggestions were drawn for the investors and companies.

Year-wise Tax Collection with Tax slab

Year	Tax Collection(Core)	Percentage	Tax Slab
2017-18	637.34	40.42	20.00
2018-19	435.56	27.62	25.00

Source: CBDT

Policy Findings:

1) There is drastic reduction in funding options for start-ups
2) Even majority of the investors have lost interest
3) Increased compliance tax burden
4) Negative impact on growth and innovation on economy as well as start-up
5) There is hamper reductions in job creation and economic growth

4. LIMITATIONS OF THE STUDY:

1) The present study considered data for 4 financial years. Hence, the results and policy findings are subjective in nature.
2) The study only considers simple statistical tools to dig the meaningful results. So results are not applicable for entire Universe.
3) The study evaluated the impact of start up. But it can be extended to others part of economy also. Hence the results are applicable to only select sector of the economy.

5. CONCLUSION

India is the second largest start-up hub in world in terms of number of business promotion. While government aims to achieve the goals of "Make in India", the start-up sector is facing challenges since the introduction of Angel Tax. However, despite the inclusion of non-residents under the ambit, the exemptions brought under Section 56(2)(viib) by the Finance Ministry this year aims to ease foreign institutional inflow into the start-ups thereby regulating start-up ecosystem in India and providing some relief to budding start-ups. The angel tax, despite being around since 2012, still has very little public knowledge, making it challenging to find qualified individuals with opinions on the tax. Therefore, for future studies, It would be recommend gathering opinions from investors in various industries, not just the ones mentioned above. Further, it would be beneficial to directly obtain the opinions of start-up founders rather than relying on accountants as intermediaries.

ACKNOWLEDGEMENT

None.

CONFLICT OF INTEREST

None.

REFERENCES

Aamir,M.,Qayyum, A.,Nasir, A.,Hussain, S.,Khan, K.I.,& Butt,S. (2011). Determinants of tax revenue: A comparative study of direct taxes and indirect taxes of Pakistan and India. International Journal of Business and SocialScience,2(19). https://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.1062.8935&rep=rep1&type=pdf

Ahmed, Q. M., & Muhammad, S. D. (2010). Determinant of tax buoyancy: empirical evidence from developing countries. European Journal of Social Sciences, 13(3),408-418. https://ssrn.com/abstract=1583943

Alagappan,S.M.(2019).Indian Tax Structure–An Analytical Perspective. International Journal of Management, 10(3) https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3467425

Arif,M.A.(2018).Critical analysis of direct taxes in India.[Doctoral Dissertation- University of Lucknow].http://hdl.handle.net/10603/186375

Asen, E. (2020). Corporate tax rates around the world, 2020. The Tax Foundation,735. https://joserobertoafonso.com.br/wp-content/uploads/2020/12/2020-Corporate-Tax-Rates-around-the-World-1.pdf

Bharat,S.(2002).Management of corporate taxation and tax planning in India. [Doctoral Dissertation-Chhatrapati Sahuji Maharaj University] .http://hdl.handle.net/10603/261281

Bholane,K.P.(2020).Analytical Study of Tax Revenue Collection in India. OurHeritage,68,41-45.https://www.researchgate.net/publication/339387081

Choudhary,N.(2018).Economic analysis of change in Indian tax structure after economic reforms. [Doctoral Dissertation-Gujarat University]. http://hdl.handle.net/10603/254219

Đurović-Todorović, J., Milinkovic, I., & Kalash, B. (2019). The Relationship Between Direct Taxes and Economic Growth in OECD Countries. Economic Themes, 57(3),273-286.[University of Novi Sad.] http://xnitbaba0aapeekb4br.xn--90a3ac/pdf/et20193_02.pdf

Gale,W.G.,& Samwick, A.A.(2014).Effects of income tax changes on economic growth Economic Studies, Oxford Scholarship Online. https://oxford.universitypressscholarship.com/DOI:10.1093/acprof: oso/9780190619725.001.0000

George,R.and Reddy,Y.V.(2015),"Corporate tax in emerging countries: some aspects of India", InternationalJournal of Law and Management,5),357366.https://doi.org/10.1108/IJLMA-03-2014-0023

Ghuge,N.R.,& Katdare,V.V.(2015).Indian Tax Structure-An Analytical Perspective. International Journal in Management & Social Science, 3(9),242-252.https://ssrn.com/abstract=3467425

Graham,J.R.(2003).Taxes and Corporate Finance: A Review, The Review of Financial Studies, 16,1075–1129, https://doi.org/10.1093/rfs/hhg033

Jain, P., & Jain, A. K. (2020). Reforms in Direct Tax Administration in India (1991–2016). Indian Journal of Public Administration,66(2),219-239.https://doi.org/10.1177/0019556120921837

Jaiswal,K.(2017).A Progressive Evaluation of Direct Tax Revenue in India. International Journal of Emerging Research in Management and Technology. 6. 48.DOI:10.23956/ijermt. v6i11.46

Jaiswal, K. (2017). An analysis of tax regimes of BRICS countries with special reference to income tax of corporate and non-corporate assessees. [DoctoralDissertation-DayalbaghUniversity].http://hdl.handle.net/10603/323850

Jaiswal,K.S.(2019).Taxation Challenges of thee Commerce Transactions. [Doctoral Dissertation- Jain University].http://hdl.handle.net/10603/263358

Kadyan,J.,Jenefa, L.,Naser,M.A.(2021). Analytical Review of Direct Taxation in India. International Journal of Management Science &Technology,12.100-110.https://doi.org/10.32804/IRJMST

Karuppiah,S.,Shanmugam,K.R.(2022).Incidence of Corporate Income Tax: Estimates from Indian Manufacturing Firms. Indian Public Policy Review, 3(1):42-58. https://doi.org/10.55763/ippr.2022.03.01.003

Khan, U., Nallareddy, S., & Rouen, E. (2017). The role of taxes in the disconnect between corporate performance and economic growth. International Journal Management Science, 66(11), 5427-5447.https://www.hbs.edu/ris/Publication%20Files/18-006_90d433b6-7b45-4a7b-8a84-faaba1925260.pdf

Korkmaz, S., Yilgor, M., & Aksoy, F. (2019). The impact of direct and indirect taxes on the growth of the Turkish economy. Public Sector Economics, 43(3), 311-323.http://www.pse-journal.hr/upload/files/pse/2019/3/5.pdf

Martinez-Vazquez,J.,Vulovic,V.,&Liu,Y.(2009).Direct versus indirect taxation: trends, theory, and economic significance. The Elgar guide to tax systems,56. DOI:https://doi.org/10.4337/9780857933898.00009

Nagaraj, G. H. (2010). An Impact of Recent Income Tax Provisions on PublicFinance:AnAnalyticalStudy.[DoctoralDissertation-BangaloreUniversity] http://hdl.handle.net/10603/53204