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Startup India : The law front

A flagship Initiative by Gurinder and Partners

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TAX LAWS AS GROWTH CATALYSTS

Taxation, often regarded as a challenge, offers startups a pivotal opportunity to enhance financial resource allocation and drive sustainable growth. Ranked among the top five globally, India's dynamic startup ecosystem, benefits from a meticulously designed tax framework aimed at fostering innovation and entrepreneurship. Provisions such as tax holidays, capital gains exemptions, and R&D deductions serve as critical enablers, allowing startups to channel resources toward strategic initiatives and achieve long-term scalability.

Tax Holidays

Under Section 80-IAC, eligible startups can enjoy a 100% exemption on profits for three consecutive years during their first ten years of operation.

Key Criteria:

- For Companies Incorporated after April 1, 2016.
- Recognized by DPIIT.
- Annual turnover capped at ₹25 crore during the financial year.

IMPACT

This exemption provides significant financial relief during the critical growth phase, allowing startups to direct resources toward scaling operations or investing in innovation.

- **Profit Retention:** Section 80-IAC offers a three-year tax holiday, enabling startups to reinvest early-stage profits into growth and innovation.
- **Investor Appeal:** Capital gains exemptions under Section 54EE reduce tax liabilities for investors, fostering increased funding opportunities.
- **R&D Incentives:** Section 35(2AB) provides significant deductions on research expenses, promoting technological advancements and product development.

A Foundation for Stability Tax Strategy

Under Section 54EE, startups and their investors can claim exemptions on long-term capital gains by reinvesting the proceeds into government-approved funds.

Why This Matters:

- Encourages reinvestment in high-growth ventures.
- Reduces the financial impact of taxation on investors, promoting sustained funding support.

Long Term Capital Gains Exemptions

Angel Tax Reforms

The removal of the Angel Tax has addressed a major bottleneck for startups. By eliminating this tax on funding raised above fair market value, startups can focus on raising capital without the administrative burden of justifying valuations to tax authorities.

Case Study

HyBionics' Financial Strategy Through Tax Savings

The Scenario

HyBionics, a med-tech startup, raised ₹3 crore in their Series A funding round to develop affordable prosthetics. Facing complex tax requirements, they sought professional advice to optimize their financial position.

Outcome

Through these measures, HyBionics saved ₹36 lakhs, enabling them to expand their production capacity and improve their market reach. The startup is now poised for a significant growth trajectory.

Steps Taken

- **DPIIT Certification:** The startup secured recognition, qualifying for the three-year tax holiday, which resulted in ₹21 lakhs in savings over two fiscal years.
- **Capital Gains Planning:** Their investors reinvested proceeds into government-approved funds, reducing tax liabilities by ₹15 lakhs.
- **R&D Deduction:** HyBionics utilized ₹75 lakhs on research and development, claiming a 200% deduction under Section 35(2AB), further easing their tax burden.