Angel Tax

History-

- Introduced in 2012 by the then Finance Minister Pranab Mukherjee.
- Section 56(2)(Viib) was introduced in Income Tax Act .
- The motive of introduction was to curb Money laundering via small companies.

Definition of Angel Investors

- An angel investor is usually a high net worth individual who provides financial backing for small startups.
- Often found among an entrepreneur’s family and friends.
- These are individuals,normally affluent,who inject capital for startups in exchange for ownership equity or convertible debt.

Legal Position of Angel Tax

- Angel tax is levied on startups under head other sources under section 56(2)(Viib) when:-
- Fund raised via **Share Capital**
- **Investment is more than 10 crore** including share capital and premium
- **Valuation** is seen to be higher than its **"Fair Value"(DCF Approach)**
- The tax rate is **30.9%** on the value more than the "Fair market Value" at the time of investment.

Amendment

- On 19 February 2019,a notification issued by the DPIIT(Department for promotion of Industry and Internal Trade) to provide relief to Startups against angel Tax.
- It has changed the definition of a startup , now an entity is a startup:
  a) Up till 10 years from the date of registration or incorporation from earlier 7 years
  b) Turnover less than 100 crores (earlier 25 crore)
  c) Funding received not more than 25 crore (earlier 10 Crore)

Conditions for exemption for Startups:

- Privately Held Companies
- Recognised by DPIIT
- Fund raised by startup is upto Rs.10 crore and the net worth of individual is Rs. 2crore

THANK YOU