

CBDT issues clarification on eligibility of small Start-ups to avail tax holiday

The Central Board of Direct Taxes (CBDT) has clarified that small start-ups with turnover upto Rs. 25 crore will continue to get the promised tax holiday as specified in Section 80-IAC of the Income Tax Act, 1961 (the 'Act'), which provides deduction for 100 per cent of income of an eligible start-up for 3 years out of 7 years from the year of its incorporation.

CBDT further clarified that all the start-ups recognised by DPIIT which fulfilled the conditions specified in the DPIIT notification did not automatically become eligible for deduction under Section 80-IAC of the Act. A start-up has to fulfil the conditions specified in Section 80-IAC for claiming this deduction. Therefore, the turnover limit for small start-ups claiming deduction is to be determined by the provisions of Section 80-IAC of the Act and not from the DPIIT notification.

CBDT said that there was no contradiction in DPIIT's notification dated 19.02.2019 and Section 80-IAC of the I.T. Act, 1961 because in para 3 of the said notification, it has clearly been mentioned that a start-up shall be eligible to apply for the certificate from the Inter-Ministerial Board of Certification for claiming deduction under Section 80-IAC of the Act, only if the start-up fulfils the conditions specified in sub-clause (i) and sub-clause (ii) of the Explanation of Section 80-IAC. Therefore, the turnover limit for eligibility for deduction under section 80-IAC of the Act, as per the DPIIT's notification is also Rs. 25 crore.

It is further stated that Section 80-IAC contains a detailed definition of the eligible start-up which, inter alia, provides that a start-up which is engaged in the eligible business shall be eligible for deduction, if (i) it is incorporated on or after 1st April 2016, (ii) its turnover does not exceed Rs. 25 crore in the year of deduction, and (iii) it holds a certificate from the Inter-Ministerial Board of Certification.

Please contact for any query related to this mail to Ms. Surbhi Sharma, Associate Economist at surbhi@phdcci.in with a cc to Dr. S P Sharma, Chief Economist at spsharma@phdcci.in of PHD Chamber.

Warm Regards,
Dr S P Sharma
Chief Economist



NATIONAL APEX CHAMBER

PHD Chamber of Commerce and Industry
PHD House, 4/2 Siri Institutional Area
August Kranti Marg, New Delhi-110016, India

Tel: +91 49545454

Fax: +91 11 26855450

Email: spsharma@phdcci.in

Website: www.phdcci.in

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PHD CHAMBER OF COMMERCE AND INDUSTRY

PHD House, 4/2 Siri Institutional Area, August Kranti Marg, New Delhi - 110 016 (India) • Tel. : +91-11-2686 3801-04, 49545454, 49545400
Fax : +91-11-2685 5450 • E-mail : phdcci@phdcci.in • Website : www.phdcci.in, CIN: U74899DL1951GAP001947

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