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Budget 2024: Opens doors for prolonged tax haven for startups, Gift City units

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In a big boost for Startups, Budget 2024 has extended by one year the incorporation window for availing a three holiday under the income tax law.

The earlier specified incorporation deadline of March 31, 2024 for availing such a tax holiday has now been extended by a year.

This means companies set to be formed in the next one year too can apply for the tax break of three years under Section 80-IAC.

Under Section 80-IAC, Startups with a turnover of less than ₹100 crore are eligible for a tax holiday of three years, any time in the first ten years of their incorporation.

Reacting to this budget announcement, Chandrajit Banerjee, Director General, Confederation of Indian Industry (CII) told BusinessLine that the extension of tax benefits for eligible Startups will provide a much needed boost to them, especially those that are still in their early stages of growth”.

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Arijit Ghosh, Member—International Tax, Nishith Desai Associates, said “Given the start-up funding landscape in India, extending the sunset on income tax deductions offered to Startups incorporated till March 31, 2025 will encourage much needed economic impetus to Indian Startups, in the face of an otherwise global economic recession”,

Kumaramangalam Vijay, Partner and Head of Practice, JSA Advocates and Solicitors said “This would provide an impetus to the startup industry, help foster growth and also help in achieving the ‘Viksit Bharat 2047’ vision of government. Given that these companies are also allowed to change shareholding without losing their tax losses, it should also allow newer Startups to seek fresh investments”.

GIFT CITY UNITS

Sovereign wealth funds and pension funds (specified fund like ADIA) are eligible for a tax break for interests, profits and dividends earned by their unit in GIFT City from the investments made between April 2020 and March 2024.

This exemption under Section 10(23 FE), which are subject to certain conditions, is now available for investments made till March 2025.

Dibya Behera, Member-Investment Funds, Nishith Desai Associates said, “Extending income tax benefits to sovereign wealth funds underscores India’s strategic approach to infrastructure development. As long term investors, sovereign wealth funds bring stability, a commitment to long term projects and a focus on definite returns”.

Riaz Thingna, Partner, Tax at Grant Thornton Bharat said extension of sunset clause would enable India to receive further long-term investment into the capital intensive infrastructure sector.

In other measures, Budget 2024 proposes extension of date of commencement of operation by IFSC Units from March 31, 2024 to March 31, 2025 to enable Non residents to avail tax exemption on Royalty/interest/income earned on account

Budget 2024 also proposes extension of date of commencement of operation by the Investment Division of Offshore Banking Unit in IFSC which has FPI Cat I license, from March 31, 2024 to March 31, 2025, to enable them to avail tax exemption on any income earned from transfer of specified Capital Assets and Business profits.

Budget 2024 proposes extension of date of commencement of operation by IFSC Units, from March 31, 2024 to March 31, 2025, to avail 100 per cent profit linked tax deduction for ten consecutive years, on income earned on account of transfer of assets being Aircraft or Ship, leased by IFSC unit.

Tapan Ray, MD and Group CEO, GIFT City, said “Recognising the crucial role of GIFT City as a global financial gateway, the decision to extend tax exemptions on specific IFSC unit income, reflects a forward-looking approach.

GIFT IFSC welcomes this move, crucial for sustaining ease of doing business and ensuring stability in taxation. This decision aligns with our shared vision for fostering a thriving IFSC ecosystem, contributing to India’s economic prowess. We appreciate the government’s continued support, emphasizing GIFT IFSC’s pivotal role in the global financial landscape.”

Thingna noted that extension of sunset clause will provide some breathing space for businesses and investors to consider commencing their operations in IFSC GIFT City. This will allow IFSC GIFT City to become one of the prominent IFSC globally, Thingna said.

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