Startups Moving PMO on Esop Ambit

**ESOP TAX DEFERMENT PROPOSAL**

DPIIT, MeitY expected to persuade Finmin to extend beneficial clause to all startups

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New Delhi: Startups are leading efforts to lobby the Prime Minister's Office (PMO) to broaden the criteria for deferring tax on employee stock options (Esops) as defined in the budget as this restricts the incentive to about 250 companies. The February 1 budget said the measure applies to startups that qualify under Section 80-IAC of the Income Tax Act. These number 200-250 ventures launched after 2016 and recognised by the Inter-Ministerial Board (IMB), which validates startups for granting tax-related benefits. If this was extended to those registered by the Department for Promotion of Industry and Internal Trade (DPIIT), the startups covered would number 26,000, said people with knowledge of the matter.

DPIIT and the Ministry of Electronics and IT (MeitY) are expected to try and persuade the finance ministry to extend the beneficial clause to all startups.

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Income tax now becomes due when employees receive shares on vesting, requiring them to arrange funds to pay taxes even if gain is notional. Esops are also taxed for capital gains when sold. The budget proposes to defer the tax payment by five years or when the employee leaves the company or sells the shares, whichever is earlier. This will help address the cashflow problem faced by employees who do not sell the shares immediately and make Esops a more attractive tool for startups to retain talent.

Angel investors and lobby groups are set to petition the PMO for wider application of the beneficial regime. The government is keen to foster entrepreneurship and encourage startups as it sees them as a source of employment generation and wealth creation.

"We will be taking up the issue with PMO and concerned ministries and departments," said Anil Khaitan, chairman of the Assocham Startup Council. The Confederation of Indian Industry (CII) and the Federation of Indian Chambers of Commerce and Industry (Ficci) are also likely to take up the issue as part of post-budget representations.

Industry wants the Esop benefit to be extended to all companies across sectors and not just startups. "The proposed change in the budget on Esops should be extended to all companies and should not be restricted to startups only," said Vikas Vasal, national leader, tax, Grant Thornton in India. "Ideally, if the taxability is shifted at the time of sale itself, it would provide a real benefit to such schemes and help startups and MSMEs (micro, small and medium enterprises) to attract and retain talent."

MeitY held a discussion with industry on Wednesday, said a person aware of the matter. "We will examine the issue and if DPIIT-registered startups or others can be considered," a government official said. "We have received oral representations but we will take it up with the authorities if more representations come to us." The Esop announcement has been well received, he said.

Less than 250 startups operating in the country recognised by the IMB will be eligible for this benefit, said Sachin Taparia, chairman of LocalCircles.

Angel investors pointed out that relief is only for five years and does not match tax to income realised. Besides, employees will still be faced with a cashflow problem after five years or when they leave the company. Unless there is a liquidity event such as a merger or an acquisition, such shares won't be liquid or monetisable in any way and the employee may still not have the cash to pay tax.

"To address the cashflow problem of employees, the proposal should be amended to ensure that tax is deducted only when the shares are sold by the employee," said one of them.
Global biggies list plans for India

AJAY BANERJEE
TRIBUNE NEWS SERVICE

LUCKNOW, FEBRUARY 5
Global biggies of the defence manufacturing sector today laid out their plans for India and spoke about the trade worth millions of dollars being done from India besides creation of thousands of skilled jobs.

Organised by industry body Assocham, a seminar on "Application of contemporary technologies in strategic programmes", saw the world's biggest companies—Lockheed Martin, Boeing and Airbus—pitch how they saw their future in India on the opening day of the DefExpo here.

Vivek Lall, vice-president (strategy & business development), Lockheed Martin, said, "The US and India are natural partners." He said his company, working with 450 defence suppliers in India, had been functioning here for the past 35 years. "We are looking into future ... for a robust partnership," he said adding that his company was working to provide training to Indian ventures and helping start-ups.

Lall is the co-chairperson of the US India Business Council (USIBC) delegation.

President of Boeing India Salil Gupta said, "We are harnessing data to improve our products."

Anand Stanley, president and managing director, Airbus India, said a lot of work in the space sector was being done at Bangalore. The design work of the Airbus A330 Neo (a civilian plane) was being done here in India, Stanley said.

Baba Kalyani, CEO of the Kalyani group, said artificial intelligence was an area in which India could lead the world. Defence production sector could do what the automotive sector had done for India, Kalyani added.