



Abolition of Angel Tax (Issue of share above its NAV/FMV price)

Finance Act, 2024 has abolished the angel tax for all categories of investors with effect from AY 2025-26 (i.e., April 1, 2024; Financial Year 2024-25).

India has surpassed many wealthy countries in the world rankings to become the third-largest destination for unicorn companies in recent years. It is predicted that this trend will continue in the upcoming years, propelling India's objective of "Viksit Bharat," thanks to a growing start-up environment in the country and the important push given by the Indian government through policy changes.

Though there have been periodic adjustments to broaden the tax bracket, the contentious angel tax measures that the Indian government enacted around ten years ago have dulled the shine of this fortunate run.

The budget released by Hon'ble Finance Minister Nirmala Sitharaman relieved the Indian startup ecosystem by eliminating the much-feared Angel tax for all investor classes.

Chronicle update on provisions related to Angel Tax

The Finance Act of 2012 brought in the "angel tax," which is section 56(2)(viib) of the Income-tax Act of 1961, to tax any extra premium that a closely held firm receives from the issuance of shares. These were imposed as an anti-abuse measure to stop the creation and transfer of unrecorded funds via share premiums that resident investors in private limited companies paid above the company's fair market value (or "FMV").

In an effort to support emerging businesses, the government relaxed regulations in 2016 and excluded from paying angel taxes companies that were registered with the Department of Industrial Policy and Promotion (DIPP). However, start-ups had little trouble surpassing the lower defined threshold limitations.

Rules stating that value shall be adopted based on the higher value computed as per prescribed Rules, or the value that may be supported to the satisfaction of the Assessing Officer, were introduced in 2017 in response to divergent perspectives on valuation.

These clauses were expanded to cover funds received by an Indian corporation from non-resident shareholders in 2023. New valuation procedures were also mandated, which led to a lot of problems.

Now, Finance Act, 2024, has abolished the angel tax provisions for all categories of investors.