

## **Startup (DPIIT Recognition – India)**

### **1. Statutory Definition**

In India, the term “Startup” is formally defined by the Department for Promotion of Industry and Internal Trade (DPIIT), Ministry of Commerce & Industry, Government of India.

As per the official notification under the Startup India initiative (available at: <https://www.startupindia.gov.in>), an entity shall be considered a Startup if:

It is incorporated as:

- A Private Limited Company under the Companies Act, 2013, or
- A Registered Partnership Firm under the Indian Partnership Act, 1932, or
- A Limited Liability Partnership under the LLP Act, 2008
- It is not more than 10 years from the date of incorporation.
- Its turnover has not exceeded ₹100 Crore in any financial year since incorporation.
- It is working towards:
  - Innovation, development or improvement of products or processes or services; or
  - A scalable business model with high potential of employment generation or wealth creation.
- It has not been formed by splitting up or reconstruction of an existing business.

### **2. Legal Interpretation**

The DPIIT definition is not merely descriptive; it is an eligibility gateway.

It does not automatically apply to every new company. A business must:

Apply for recognition

- Submit innovation justification
- Receive formal approval

Thus, a company is not a “Startup” in the regulatory sense unless it is formally recognised. This distinction is frequently misunderstood by founders.

### **3. Policy Rationale Behind the Definition**

The Government’s intent behind defining a Startup was to:

- Differentiate high-growth innovative ventures from traditional SMEs
- Channel fiscal incentives selectively
- Encourage formal incorporation
- Promote scalable and technology-driven enterprises

The emphasis is not on age alone, it is on scalability and innovation.

## 4. Practical Example

Example 1:  
A 2-year-old Private Limited Company operating a conventional retail clothing shop does not qualify as a startup merely because it is new.

Example 2:  
A 5-year-old agri-tech platform using AI-based soil analytics with ₹12 crore turnover may qualify, provided innovation and scalability are demonstrated.

Thus, innovation intent is critical.

## 5. Regulatory Benefits of DPIIT Recognition

Once recognised, startups may be eligible for:

- Income tax exemption under Section 80-IAC (subject to approval by Inter-Ministerial Board)
- Exemption from Angel Tax under Section 56(2)(viib), subject to conditions
- Self-certification under certain labour and environmental laws
- Fast-track patent examination
- IPR filing fee rebates
- Government procurement relaxations

However, these benefits are conditional and not automatic.

## 6. Strategic Importance for Founders

DPIIT recognition affects:

- Tax planning
- Fundraising structuring
- Investor comfort
- Government scheme eligibility
- Grant access
- Public perception

Many founders delay recognition and later discover they are ineligible for certain tax benefits because procedural timelines were missed.

## 7. Risk Considerations

Founders must be cautious about:

- Artificial restructuring to qualify (prohibited)
- Overstating innovation in application
- Assuming automatic tax exemption
- Ignoring compliance after recognition
- Recognition does not exempt the company from Companies Act obligations.

## 8. Institutional Perspective (Incubation Centre View)

For an incubation centre, DPIIT recognition should not be treated as an administrative checkbox.

Instead, incubators should:

- Assess eligibility early
- Integrate recognition into startup on-boarding
- Educate founders about conditional tax exemptions
- Track compliance post-recognition

A governance-ready incubated startup must understand the regulatory meaning of its own classification.