



# India Union Budget 2024-2025

Point of view

#UnionBudget2024 #KPMGBudgetLIVE

Fueling Innovation and Startup Growth

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Innovation has been a key driver of growth in the Indian economy. By fostering technological advancements and new business models, India has seen significant improvements in productivity and efficiency. Government initiatives like Atal Innovation Mission and Startup India have created a supportive ecosystem for entrepreneurs. Increased investment in research and development has also played a crucial role. As a result, sectors such as Fintech, Healthtech, e-commerce, and Edtech have flourished, contributing to economic diversification and resilience. This innovation-led approach has positioned India as a global leader in various industries, driving sustainable economic growth. This vibrant startup ecosystem continues to play a crucial role in the country's economic development.

The Union Budget 2024, presented by Finance Minister Nirmala Sitharaman, has introduced several key measures aimed at boosting the startup ecosystem and fostering innovation in India. This budget is seen as a significant step towards creating a more conducive environment for startups and encouraging technological advancements across various sectors. Here is an in-depth analysis of the budget and its potential impact on the startup community and innovation in India.

## Key Highlights of the Union Budget 2024

- **Abolishment of Angel Tax:** One of the most significant changes in the budget is the abolition of the angel tax. Previously, this tax was imposed on the capital raised by unlisted companies through the issue of shares to investors if the share price exceeded the fair market value (FMV) of the company. The excess amount was treated as income and taxed in the hands of the company. Its removal is expected to ease the financial burden on startups, making it easier to attract investments and encouraging more angel investors to fund innovative ventures.

**Impact:** This move is expected to remove significant hurdles for startup funding, making it easier for early-stage businesses to attract investments without worrying about potential litigation on valuation. By eliminating this tax, the government aims to encourage more domestic and foreign investments into the startup ecosystem, providing startups with the necessary capital to grow and innovate.

- **Changes to the capital gains tax regime:** The key changes are (i) long-term capital gains will now be taxed at 12.5% across all asset classes (ii) the benefit of indexation has been removed (iii) Short term capital gains tax on listed shares stands increased to 20% from the existing 15% (iv) tax for foreign companies has been reduced to 35% from existing 40%.

**Impact:** First, resident and non-resident investors have been brought at par, meaning thereby any sale of shares in an Indian Company shall be taxable at the same rate of 12.5%. This change is beneficial for resident shareholders currently taxed at 20%; and not so beneficial for non-resident shareholders who are currently taxed at 10%. Second, listed and unlisted shares have been brought at par, which implies that any exit in an IPO will now attract higher taxes i.e. 12.5% for long term gains in place of the existing 10% and short-term gains will be taxed at 20% in place of the existing 15%. Hence, start-ups evaluating their IPO strategy should consider the increased cost for shareholders and investors. Third, exit by resident founders or investors in unlisted shares will now be beneficial with the rate reduction from 20% to 12.5%

- **Buyback of shares:** Buy-back has now been brought at par with dividends. The entire distribution will now be treated as dividend and taxable for shareholder without any deduction for costs; while the cost of acquisition of shares bought back can still be claimed as a capital loss to be carried forward.

**Impact:** The change in taxation could make share repurchases less attractive, affecting start-ups' strategies for returning capital to shareholders.

- **Venture Capital Fund for Space Economy:** The government has proposed setting up a ₹1,000 crore venture capital fund specifically for investments in the space economy.

**Impact:** This initiative aims to boost innovation and growth in this emerging sector. Startups working on space technology and related fields are likely to benefit from this fund, which could lead to significant advancements in India's space capabilities.

- **Ecommerce Export Hubs:** To facilitate access to international markets, ecommerce export hubs will be established in a public-private partnership mode.

**Impact:** This will benefit micro, small, and medium enterprises (MSMEs) and traditional artisans by providing them with the infrastructure and support needed to reach global customers. Enhanced market access is expected to increase revenue and global presence for these businesses.

- **Digital Public Infrastructure:** The budget emphasizes the development of population-scale digital public infrastructure tools by the private sector in areas such as credit, ecommerce, health, law and justice, logistics, MSME service delivery, and urban governance.

**Impact:** This focus on digital infrastructure is expected to drive innovation and efficiency across various sectors, creating new opportunities for startups.

- **Credit Guarantee Scheme for MSMEs:** A revised credit guarantee scheme has been introduced to facilitate term loans for MSMEs to purchase machinery and equipment without collateral or third-party guarantee.

**Impact:** This is expected to help MSMEs expand capacities and scale up production, thereby fostering growth and innovation within this crucial sector. This support is crucial for the development and scaling of small businesses in India.

- **Reduction in TDS on Ecommerce:** The tax deduction at source (TDS) on ecommerce transactions has been reduced from 1% to 0.1%.

**Impact:** This reduction aims to ease the burden on working capital of ecommerce players and encourage more transactions, benefiting startups operating in the ecommerce space.

- **Tax amnesty scheme provided under GST laws:** The Government has introduced an amnesty scheme with respect to tax notices issued under Section 73 for FY 2018, 2019 and 2020, wherein if the taxpayer discharges the tax liability within a prescribed period, then the interest and penalties proposed under the notice will be waived off and matter will be considered as closed.

**Impact:** Offers an opportunity to the taxpayer to close some of the past litigation matters, without bearing additional cost of interest and penalties.

## Conclusion

The future of startups and innovation in India looks promising. With one of the fastest-growing economies and the third-largest startup ecosystem globally, India is poised to become a powerhouse in tech services, digital, and manufacturing sectors. Government initiatives and increased funding have fostered a supportive environment for entrepreneurs. Emerging sectors like DeepTech, SpaceTech, AI, and EVs are gaining traction. Major urban centers like Bengaluru, Delhi-NCR, and Mumbai continue to be key hubs, while tier 2 and 3 also see a rise in the number of startups and entrepreneurship. This vibrant ecosystem is expected to drive sustainable growth, job creation, and position India as a global leader in innovation. This budget introduces significant measures to boost the startup ecosystem and foster innovation in India. These measures are expected to attract more investments, drive technological advancements, and enhance market access for startups. Overall, the budget positions India as a global hub for innovation and entrepreneurship, paving the way for sustained growth and development.

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