



“IMPACT OF INCOME TAX ON STARTUPS AND SMALL CORPORATIONS (WITH SPECIAL REFERENCE TO MADHYA PRADESH)”

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ABSTRACT:

Prime Minister Narendra Modi proclaimed the Startup India campaign in 2016 to boost entrepreneurship in India. The action plan aimed at promoting bank financing for startups, simplifying the incorporation of the startup process and grant of various tax exemptions and other benefits to startups. Startup India initiative intends to build a strong ecosystem that is conducive for the growth of startups. It aims to empower startups to achieve growth through innovation and technology. To promote growth and help Indian economy, many benefits are being given to entrepreneurs establishing startups. The startups recognised through the Startup India initiative are provided ample benefits for starting their own business in India.



KEY WORDS: Own business, Income Tax, Startups and Small Corporations.

INTRODUCTION

Madhya Pradesh is the second largest state in the country in terms of area and is in the category of leading states in economic development. Investment friendly policies of the State Government, simplification of the processes related to industry and business sector, significant efforts in developing economic and social infrastructure have resulted in growth of investment climate in the State in the last years. It has been the endeavor of the State Government to generate maximum number of employments for the local youth of the State through innovation and entrepreneurship. The first Start-up policy in this series was implemented by the state in the year 2016. Keeping in mind the dynamics of the Start-up sector, the new start-up policy was again implemented in the year 2019. In the dynamics of Innovation and Startups, changes in the global economic environment, regulatory amendments, New Education Policy of the Government of India and Start-up ranking of states and above all a policy to ful-fill the objectives of Aatma Nirbhar Bharat Abhiyan and Atma Nirbhar Madhya Pradesh Roadmap 2023, another review has become necessary. Therefore, with the objective of making the Start-up Policy more holistic, inclusive, integrated and effective, it has been decided to implement "MP Start-up Policy and Implementation Plan-2022" by the State government.

Definitions: “Startup” means an entity which is recognized by Startup India under the Government of India, Ministry of Commerce and Industry Department of Industry Promotion and Internal Trade, and is established and registered in the State of Madhya Pradesh.

Startup India Registration In Madhya Pradesh: Startup India is an Indian Government initiative that is intended to build a strong eco-system for nurturing innovation and startups in the country to drive sustainable economic growth and generate large scale employment opportunities. Through this initiative, the government aims to empower Startups to grow through innovation and design. The objectives of the Startup India Movement are outlined below. The action plan envisages supporting the startups and more:

- Enhanced infrastructure, including incubation centres
- IPR facilitation, including easier patent filing
- The better regulatory environment, including the tax benefits, easier compliance, improved setting up of a company, fastest mechanism and more.
- A goal to increase the funding opportunities
- Provide a vast networking database for the entrepreneurs and other stakeholders in the startup ecosystem.

DISCUSSION:

The impact of income tax on startups and small corporations in Madhya Pradesh, as in any other region, can be substantial and can influence their growth, sustainability, and overall business operations. Below are some key considerations regarding the impact of income tax on startups and small corporations, with a focus on Madhya Pradesh:

1. Tax Liability:

Challenges: Startups and small corporations often face challenges related to the calculation and payment of income tax. Understanding tax liabilities and compliance requirements are complex.

Recommendations: Seeking professional advice or engaging with tax consultants can assist in navigating the complexities of income tax regulations.

2. Tax Incentives for Startups:

Challenges: Startups encounter difficulties in accessing tax incentives or benefits due to stringent eligibility criteria.

Recommendations: Regularly review and leverage government schemes and incentives that aim to promote startup growth. Madhya Pradesh offer specific incentives for startups that businesses should explore.

3. Compliance Burden:

Challenges: Ensuring compliance with income tax regulations, including timely filing of returns and adherence to tax laws, burdensome for small entities with limited resources.

Recommendations: Implement efficient accounting and reporting systems to streamline compliance processes. Seek professional assistance for accurate tax filings.

4. Impact on Cash Flow:

Challenges: Income tax obligations impact the cash flow of startups and small corporations, affecting their day-to-day operations and growth plans.

Recommendations: Plan for tax payments strategically, considering cash flow requirements. Explore installment options to manage tax liabilities more effectively.

5. State-Specific Tax Considerations:

Challenges: State-specific tax considerations, including local taxes, can vary. Understanding and complying with Madhya Pradesh's specific tax regulations is crucial.

Recommendations: Stay informed about any state-specific tax incentives, exemptions, or obligations in Madhya Pradesh that may be relevant to startups.

6. Tax Planning and Optimization:

Challenges: Limited resources may hinder startups from engaging in sophisticated tax planning and optimization strategies.

Recommendations: Seek professional advice for tax planning to optimize the utilization of deductions, exemptions, and credits. Stay updated on changes in tax laws.

7. Government Initiatives:

Challenges: Awareness about government initiatives supporting startups and small corporations are lacking.

Recommendations: Stay informed about initiatives such as "Make in Madhya Pradesh" or other state-specific programs that may offer support and incentives for businesses.

8. Investment and Funding:

Challenges: Tax implications related to investment and funding are impact the attractiveness of startups to investors.

Recommendations: Understand the tax implications of different funding structures. Seek legal and financial advice to structure investments in a tax-efficient manner.

9. GST Compliance:

Challenges: Goods and Services Tax (GST) compliance is an integral part of the tax landscape, and non-compliance can lead to penalties.

Recommendations: Ensure proper GST compliance alongside income tax compliance. Leverage digital tools for easier GST filing.

Recommendations for Startups and Small Corporations :

Recommendations for startups and small corporations, especially those operating in Madhya Pradesh, help navigate challenges, optimize resources, and foster sustainable growth. Here are key recommendations:

Tax Planning and Compliance: Engage with tax professionals to strategize tax planning, maximize deductions, and ensure compliance with both national and state-specific tax regulations in Madhya Pradesh.

Utilize Startup and MSME Benefits: Explore and leverage government schemes, incentives, and benefits specifically designed for startups and Micro, Small, and Medium Enterprises (MSMEs) in Madhya Pradesh.

Digital Record Keeping: Implement digital accounting systems for efficient record-keeping, invoicing, and financial management. This not only aids in compliance but also provides better insights into financial health.

Investment in Technology: Embrace technology to streamline operations, enhance productivity, and stay competitive. Cloud-based tools, automation, and digital platforms be cost-effective solutions.

Access to Finance: Explore various sources of funding, including government grants, angel investors, venture capital, and MSME loans, to support business expansion and development projects.

Network and Collaborate: Build strong networks within the local business community and industry associations. Collaborate with peers, mentors, and advisors for insights, support, and potential partnerships.

Local Market Understanding: Gain a deep understanding of the local market dynamics, consumer behavior, and regulatory environment specific to Madhya Pradesh. Tailor products or services to meet local needs.

Employee Training and Development: Invest in the training and development of employees to enhance skills and productivity. A well-trained workforce contributes significantly to the success of a startup.

Energy Efficiency Practices: Implement energy-efficient practices to reduce operational costs. This includes optimizing energy use in facilities, adopting sustainable practices, and exploring renewable energy options.

CONCLUSION:

Income tax poses challenges to startups and small corporations in Madhya Pradesh, proactive management, strategic planning, and awareness of available incentives can mitigate adverse effects. The collaboration between businesses, professional advisors, and government initiatives is crucial for fostering a conducive environment that supports the growth and sustainability of startups in the region. It is imperative to ensure better survival and enhanced success of the Startup segment of the Indian economy. Formulation of time bound, flexible, decentralized strategy having an appropriate mix of aforesaid measures (to suit specific contexts) is urgently required for optimising the survival and growth of Startups in India, in today's difficult economic/ employment environment.

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