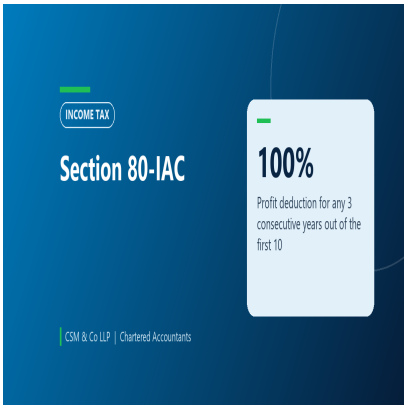

Section 80-IAC: Tax Exemption for Startups, Eligibility and Conditions

Description

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Quick summary

- Section 80-IAC gives an eligible startup a deduction of 100% of its business profits for any 3 consecutive years out of its first 10.
- The startup must be a company or LLP incorporated on or after 01/04/2016 and before 01/04/2030, with an Inter-Ministerial Board certificate.
- The turnover cap is ?100 crore for FY 2025-26 and ?300 crore from Tax Year 2026-27.
- From Tax Year 2026-27 it is section 140 of the Income-tax Act, 2025, and the audit report is Form 32. It is not available if a company pays tax at 22% or 15%.

Section 80-IAC lets a certified startup pay no income tax on the profits of its eligible business for three years. It is one of the most useful tax benefits for young companies and LLPs. From Tax Year 2026-27 the provision is section 140 of the Income-tax Act, 2025. For FY 2025-26 (assessment year 2026-27) it is still section 80-IAC of the 1961 Act.

How much and for how long?

The deduction is 100% of the profits and gains derived from the eligible business. The startup can claim it for any three consecutive tax years, chosen by the startup, out of the ten years beginning with the year of incorporation. Choose the three years in which you expect profits.

Who is an eligible startup?

A company or limited liability partnership that:

- is engaged in an eligible business, meaning innovation, development or improvement of products, processes or services, or a scalable business model with a high potential for employment generation or wealth creation;
- is incorporated on or after 1 April 2016 and before 1 April 2030;
- has total business turnover within the limit in the year of the claim: ?100 crore for FY 2025-26 under the

1961 Act, and ?300 crore from Tax Year 2026-27 under section 140 (the Finance Act, 2026 raised it); and
- holds a certificate of eligible business from the Inter-Ministerial Board of Certification (IMBC).

A partnership firm or proprietorship cannot claim it. A private limited company and an LLP can.

Other conditions

- The startup must not be formed by splitting up or reconstructing a business already in existence.
- It must not be formed by transferring to the new business machinery or plant previously used for any purpose. Used plant and machinery up to 20% of the total value of machinery in the business does not break this rule, and imported machinery that was never used in India and never claimed depreciation is also not treated as previously used.
- The eligible business is treated as the only source of income of the startup when working out the profits for the deduction.
- If goods or services move between the eligible business and another business of the assessee at a price different from market value, the profits are worked out at market value.
- A business discontinued because of flood, cyclone, earthquake, riot, accidental fire, explosion or enemy action and revived within three years of the end of that year is not treated as a reconstruction.
- The accounts of the eligible business must be audited and the audit report furnished before the specified date. The report is Form 10CCB up to FY 2025-26 and Form 32 (Rule 66) under the Income-tax Rules, 2026.

Two steps to qualify

1. **DPIIT recognition.** Register on the Startup India portal and get recognised as a startup by the Department for Promotion of Industry and Internal Trade (DPIIT, formerly DIPP).
2. **IMBC certificate for tax benefits.** Apply separately on the portal for the Inter-Ministerial Board of Certification, choosing the tax exemption option. Keep ready the constitution documents, financial statements, and a pitch deck or video. Recognition alone is not enough for section 80-IAC.

Tax regime

A company can claim section 80-IAC only if it pays tax under the normal provisions. The 22% and 15% regimes (sections 200 and 201 of the 2025 Act) allow only section 146 and section 148 from the deduction chapter, so a startup that takes the 22% rate loses this deduction. An LLP, taxed at the flat rate for LLPs, is not affected by that choice.

Do not forget MAT

Zero tax on profits does not always mean zero tax. A company taxed under the normal provisions can still face minimum alternate tax on its book profit, and the section 80-IAC deduction does not reduce book profit. Check the book profit position before assuming the startup will pay nothing.

Example

A private limited company was incorporated in April 2023 and holds the DPIIT and IMBC certificates. It makes a loss in its first two years and a profit of ?40,00,000 from its eligible business in the third year. It can choose that year, and the next two, as its three years. In the profit year the deduction is ?40,00,000, so its taxable business income is nil, subject to MAT.

Frequently asked questions

Who is an eligible startup under section 80-IAC?

A company or LLP engaged in an eligible business, incorporated on or after 01/04/2016 and before 01/04/2030, with turnover within the limit and a certificate of eligible business from the Inter-Ministerial Board of Certification.

How long is the deduction?

100% of profits from the eligible business for any 3 consecutive tax years, chosen by the startup out of the 10 years beginning with the year of incorporation.

What is the turnover limit?

?100 crore under the 1961 Act (up to FY 2025-26) and ?300 crore under section 140 of the 2025 Act from Tax Year 2026-27.

Is DPIIT recognition enough?

No. The Act asks for a certificate of eligible business from the Inter-Ministerial Board of Certification, which is a separate step from DPIIT recognition.

Can a company that pays tax at 22% claim it?

No. The 22% and 15% company regimes allow only additional employee cost (section 146) and inter-corporate dividends (section 148) from the deduction chapter.

Official sources

- Income Tax Department: Income-tax Act 2025 as amended by Finance Act 2026 (sections 140, 200, 201)
- Income Tax Department: Income-tax Rules, 2026 (Rule 66 and Form 32)
- Startup India: tax exemption under section 80-IAC

Related reading

- Decoding the Direct Tax Landscape: Budget 2025 Insights

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