INCOME-TAX ACT, 2025

C: Deductions in respect of certain incomes

Section 140 - Special provision in respect of specified business.

(1) Where the gross total income of an assessee, being an eligible start-up, includes any profits and gains derived from eligible business, there shall, as per and subject to the provisions of this section, be allowed, in computing the total income of the assessee, a deduction of an amount equal to 100% of the profits and gains derived from such business for three consecutive tax years.

(2) The deduction specified in sub-section (1) may, at the option of the assessee, be claimed by him for any three consecutive tax years out of ten years beginning from the year in which the eligible start-up is incorporated.

(3) This section applies to a start-up which fulfils the following conditions:—

(a) it is not formed by splitting up, or the reconstruction, of a business already in existence;

(b) it is not formed by the transfer to a new business of machinery or plant previously used for any purpose.

(4) Where the business of any undertaking carried on in India is discontinued in any tax year by reason of extensive damage to, or destruction of, any building, machinery, plant or furniture owned by the assessee and used for the purposes of such business as a direct result of—

(a) flood, typhoon, hurricane, cyclone, earthquake or other convulsion of nature; or

(b) riot or civil disturbance; or

(c) accidental fire or explosion; or

(d) action by an enemy or action taken in combating an enemy (whether with or without a declaration of war),

and thereafter, at any time before the expiry of three years from the end of such tax year, the business of such undertaking is re-established, re-constructed or revived by the assessee, the condition referred to in sub-section (3)(a) shall not apply to such undertaking which is so re-established, reconstructed or revived.

(5) For the purposes of sub-section (3)(b), any machinery or plant which was used outside India by any person other than the assessee shall not be regarded as machinery or plant previously used for any purpose, if all the following conditions are fulfilled:—

(a) such machinery or plant was not, at any time previous to the date of the installation by the assessee, used in India;

(b) such machinery or plant is imported into India; and

(c) no deduction on account of depreciation in respect of such machinery or plant has been allowed or is allowable under the provisions of this Act in computing the total income of any person for any period prior to the date of the installation of the machinery or plant by the assessee.

(6) Where in the case of a start-up, any machinery or plant or any part thereof previously used for any purpose is transferred to a new business and the total value of the machinery or plant or part so transferred does not exceed 20% of the total value of the machinery or plant used in the business, then, for the purposes of sub-section (3)(b), the condition specified therein shall be deemed to have been

complied with.

(7) Irrespective of anything contained in any other provision of this Act, the profits and gains of an eligible business to which the provisions of sub-section (1) apply shall, for the purposes of determining the quantum of deduction under that sub-section for the tax year immediately succeeding the initial tax year or any subsequent tax year, be computed as if such eligible business was the only source of income of the assessee during the initial tax year and to every subsequent tax year up to and including the tax year for which the determination is to be made.

(8) The deduction under sub-section (1) from profits and gains derived from an eligible business shall not be admissible unless the accounts of the eligible business for the tax year for which the deduction is claimed have been audited by an accountant, before the specified date referred to in section 63 and the assessee furnishes by that date the report of such audit in the prescribed form duly signed and verified by such accountant.

(9) In a case where, any goods or services held—

(i) for the purposes of the eligible business are transferred to any other business carried on by the assessee; or

(ii) for the purposes of any other business carried on by the assessee are transferred to the eligible business,

and, in either case, the consideration, if any, for such transfer as recorded in the accounts of the eligible business does not correspond to the market value of such goods or services as on the date of the transfer, then, for the purposes of the deduction under this section, the profits and gains of such eligible business shall be computed as if the transfer, in either case, had been made at the market value of such goods or services as on that date.

(10) For the purposes of sub-section (9), where, in the opinion of the Assessing Officer, the computation of the profits and gains of the eligible business in the manner hereinbefore specified presents exceptional difficulties, the Assessing Officer may compute such profits and gains on such reasonable basis as he may deem fit.

(11) For the purposes of sub-section (9), “market value”, in relation to any goods or services, means—

(i) the price that such goods or services would ordinarily fetch in the open market; or

(ii) the arm’s length price as defined in section 173(a), where the transfer of such goods or services is a specified domestic transaction referred to in section 164.

(12) Where any amount of profits and gains of an undertaking or of an enterprise in the case of an assessee is claimed and allowed under this section for any tax year, deduction to the extent of such profits and gains shall not be allowed under any other provisions of Part C of this Chapter and shall in no case exceed the profits and gains of such eligible business of undertaking or enterprise, as the case may be.

(13) Where it appears to the Assessing Officer that owing to the close connection between the assessee carrying on the eligible business to which this section applies and any other person, or for any other reason, the course of business between them is so arranged that the business transacted between them produces to the assessee more than the ordinary profits which might be expected to arise in such eligible business, the Assessing Officer shall, in computing the profits and gains of such eligible business for the purposes of the deduction under this section, take the amount of profits as may be reasonably deemed to have been derived therefrom.

(14) Where the arrangement as mentioned in sub-section (13) involves a specified domestic transaction referred to in section 164, the amount of profits from such transaction shall be determined having regard to arm’s length price as defined in section173(a).

(15) The Central Government may, after making such inquiry as it may think fit, direct, by notification, that the exemption conferred by this section shall not apply to any class of industrial undertaking or enterprise with effect from such date as it may specify in the notification.

(16) For the purposes of this section,––

(a) “eligible business” means a business carried out by an eligible start-up engaged in innovation, development or improvement of products or processes or services or a scalable business model with a high potential of employment generation or wealth creation;

(b) “eligible start-up” means a company or a limited liability partnership engaged in eligible business which fulfils the following conditions:—

(i) it is incorporated on or after the 1st April, 2016 but before the 1st April, 2030;

(ii) the total turnover of its business does not exceed one hundred crore rupees in the tax year relevant to the tax year for which deduction under sub-section (1) is claimed; and

(iii) it holds a certificate of eligible business from the Inter-Ministerial Board of Certification as may be notified by the Central Government;

(c) “limited liability partnership” means a partnership referred to in section 2(1)(n) of the Limited Liability Partnership Act, 2008.