



Startups in India: Analysis of the legal and regulatory framework governing India's startup ecosystem

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Abstract

In India, startups are a relatively new business, contributing to its evolving corporate culture. These new startup businesses are regulated by various complicated laws and compliance rules like trademark, patent, labour and environment law compliances etc. To simplify these complicated legal procedures, the Government introduced the 'Startup India Initiative' to facilitate and redefine ease of doing business, that also aims at increasing foreign investment and acquainting academia with industry for the purpose of achieving sustainability goals and generating employment. This article aims at a comprehensive analysis of what constitutes a startup, its various structure, laws and government schemes empowering their growth.

Keywords: Startup, entrepreneur, company, investment, compliance

1 Introduction

The concept of startup in the Indian society is relatively new, but the last decade has seen a rapid and booming startup revolution, which has made India the world's third largest startup ecosystem, standing just behind China and USA. With more than 1.5 lakh entrepreneurial business initiatives¹, startups are slowly changing India's whole corporate trajectory. Innovations and programme-based businesses ranging from healthcare, technology, education, agriculture and also academia across India are contributing towards wealth and employment alike which have generated over 17.69 lakh direct jobs in the last five years since 2020.²

The Government of India has, through its Startup Initiative launched in 2016, helped simplify the procedural and legal complications involved while establishing and operating a startup, while also providing financial and research-oriented support. This article discusses those various laws that startup businesses need to

¹"Nine Years of Startup India" (pib.gov.in, January 15, 2025)

<https://www.pib.gov.in/PressReleaseIframePage.aspx?PRID=2093125&lang=2> accessed 04 January, 2026.

² Ministry of Labour and Employment, Generation of Employment in Urban Areas (Rajya Sabha Unstarred Question No 2335, 20 March 2025) https://dge.gov.in/dge/sites/default/files/2025-05/2335_e.pdf accessed 8 January, 2026.

adhere to and what they protect, along with various government schemes enlisted under the Startup India Action Plan 2016 and their implications for emerging startups.

2 Startup: Definition

The basis of a startup idea is innovation. Innovation that tends to satisfy demands of the population, or aims at generating demand and forming a consumer base. An entrepreneur is the one that forms a startup idea and turns it into a Minimal Viable Product (MVP). The MVP are the low-cost samples that act as test models that lets you know how the product is going to be. The MVP of a product is not just a product prototype, but also a trial run, keeping in mind the target market and gauging their reaction³. The most important factor for the development of a startup is investment. Startups, since the very beginning, require a considerable amount of capital to kick start the production process.

There hasn't been any development on a unified definition of a startup. Various countries have defined startups to consist of the following characteristics:

- a) Startups are defined by their newness. A business is considered a startup if it's a relatively recent business.
- b) For a business to be considered as a startup, it needs to have a very low production cost compared to the potential revenue rate.
- c) Startups are often primarily dependent on technology.

While the research scholars and academics define startups based on factors such as scalability, high growth percentage and innovation, entrepreneurial definitions include market responsiveness, business viability and agility.⁴

2.1 Startups: Business structure

There are various legal businesses an entrepreneur can establish that have their own merits and demerits. The Government of India, under the 'Startup India Initiative' that aims at simplifying the process of establishment of a startup have listed some forms a business can take.

³Garrett B, "Entrepreneur 101: What to Know about MVPs" Forbes (January 14, 2020)

<https://www.forbes.com/sites/briannegarrett/2020/01/14/entrepreneur-101-what-to-know-about-mvps/?sh=4a185cdd5855> accessed 02 January, 2026

⁴Siniša Pekevski, 'What Is a Startup?' (2025) 13(2) Management Studies 68–78

https://www.researchgate.net/publication/393280077_What_Is_a_Startup accessed 4 January 2026

1. Private limited company: Under Section 2(68) of The Companies Act, 2013, a private limited company (Pvt. Ltd.) is defined as a company having a maximum of 200 shareholders. This type of legal business restricts the right to transfer of its share and prohibits the public subscription of any securities. A Pvt. Ltd. company is the best choice for firms wanting to grow big. It allows venture capitalist investments, as only this type of startup allows venture capitalists (VCs) a seat in the board of directors by making them shareholders. It also features limited liability compared to limited liability partnership (LLP) or one person company (OPC) as the repayment of dues is proportional to how much they invest. The cost of starting up a Pvt. Ltd. company is comparatively higher than other legal business entities. Section 12 of the Companies Act, 2013 makes it mandatory for a Pvt. Ltd. company to maintain a registered office⁵.
2. Limited liability partnership: A LLP is defined under the Limited Liability Partnership Act, 2008, making it a separate legal entity requiring a minimum of two partners with no cap on the numbers of partners. The act also specifies the requirement of one partner to be of Indian origin⁶. An LLP is a cost-effective business structure that protects the partner's personal assets and enables fewer compliance regulations, making business processes way simpler than other entities.
3. Partnership firm: A partnership firm is a business structure governed by the Indian Partnership Act 1932⁷. It is a partnership of two or more persons who, through a partnership agreement, agree to share profit of a business. This business startup has unlimited liability as the firm and its partners are considered one single entity. Compliance requirements are minimal hence it's easy to start and also cost effective⁸.
4. Sole proprietorship: A sole proprietorship business model is managed and owned by a single person. This type of startup does not require any registration for legal recognition. The burden of liability falls on the proprietor, which makes it harrowing for the owner of the company.

3 Licences and registrations

A startup business, to be considered a legal entity is required to register itself under various legislative frameworks that regulate them. Let us look at the various compliances under various laws provided by the Indian legislature that need fulfilment if a business model is to be considered a legal entity.

⁵ The Companies Act 2013, s 2(68), 12.

⁶ The Limited Liability Partnership Act 2008, s 3,6.

⁷ The Indian Partnership Act, 1932.

⁸ "Types of Businesses" (Startup India)

<https://www.startupindia.gov.in/content/sih/en/international/go-to-market-guide/types-of-businesses.html> accessed on 01 January, 2026.

1. Business incorporation: For a business to be incorporated, it first needs to register itself as either a Pvt. Ltd. Company, LLP, or as a partnership firm aligning with its business model and goals. It is the first step that gives legal validity to a business.⁹
2. PAN and TAN generation: Permanent Account Number (PAN) is a unique number that is provided to any business or individual by the Income Tax Department for the purpose of any monetary transactions such as receiving investment from investors, or tax deduction. A business, whose gross turnover exceeds or is likely to exceed 5 lakh rupees in the previous year is required to generate a PAN number.¹⁰ Any business, under section 203A of The Income Tax Act, 1961 is required to generate a Tax Deduction and Collection Account Number (TAN), which is an alphanumeric number for the purpose of deducting or collecting taxes.¹¹
3. GST, ESI and EPF: A person/supplier has to mandatorily register himself under Section 22 of the Central Goods and Service Tax Act, 2017 if aggregate turnover exceeds the threshold of 20 lakh in the case of services suppliers¹² in Normal Category States and 10 lakhs in the case of Special Category States. A person who makes interstate supply or supplies goods and services through e-commerce platforms or e-commerce operators are required to, irrespective of the turnover, compulsorily register under GST.¹³

If a business, according to the Employees State Insurance Act, 1948 comes under the scope of “establishment” defined in section 1(5) i.e. if a business consists of minimum 10 employees whose salary exceeds up to 21,000 per month, it is required to register under section 2(A) of the same act.¹⁴

If an establishment employs more than 20 people and their salary exceeds above 15000 rupees per month, it is required to register itself under the Employees Provident Funds and Miscellaneous Provisions Act, 1952.¹⁵

4. DPIIT startup registration: A business or establishment, to be considered a startup should satisfy the conditions listed by the Department for Promotion of Industry and Internal Trade (DPIIT). They are:
 - a) Innovation: innovation should be the product branding of the business model, which aims at scaling profits by disrupting market trends and should modify the product to cater to the growing needs of the future.

⁹ Ministry of Commerce and Industry, Department for Promotion of Industry and Internal Trade, Notification GSR 127(E), 19 February 2019 (India) para 1(a).

¹⁰ The Income Tax Act 1961, s 139A(ii).

¹¹ The Income Tax Act 1961, s 203A.

¹² The Central Goods and Service Tax 2017, s 2(105).

¹³ The Central Goods and Service Tax 2017, s 22(1), 24.

¹⁴ The Employees State Insurance Act 1948, s 1(5), 2(A).

¹⁵ The Employees' Provident Funds and Miscellaneous Provisions Act 1952, s 1(3).

- b) Business structure: A business to be considered a startup under government policy should be registered as Pvt. Ltd. Company, LLP, or Partnership firm.
 - c) Age: The period of existence of a startup and operation should not exceed 10 years from the date of incorporation.
 - d) Turnover threshold: A business should not exceed the turnover limit of 100 crores INR in the previous financial year.
 - e) Original entity: A business should not be formed by splitting of another existing business.
 - f) Growth potential: A business should have the potential to generate employment and wealth.^{16,17}
5. Intellectual property compliance: India's intellectual property laws through various statutes enable the founder of an innovation to secure the rights of their creation and impose liability on unauthorized use and exploitation. A person or business innovation, or idea or information can be protected through various legislations such as The Patents Act, 1970, The Trade Marks Act, 1999, The Copyright Act, 1957 and The Designs Act, 2000.
- a) Patent: A patent can be defined as a legal right granted to the inventor of an innovation which protects the innovation from being used in an unauthorized manner without the consent of the inventor. An application for a patent filing of an invention is required to be filed by the inventor himself. If an applicant is not the true inventor or is a part inventor of the invention in question, he needs to furnish a declaration by the true inventor or part inventor declaring the person named in the declaration to be the true or part inventor.¹⁸
 - b) Trademark: Trademark refers to the distinguishing feature of a business enterprise, like a company's logo, slogan, or brand name that helps recognize its product or service as something different from other business. Any person can apply for a trademark who claims to be the proprietor of the said trademark in use or proposed to be used in the future.¹⁹
 - c) Copyright: Copyright refers to the legal right that gives authors full ownership right over their created work. Copyright usually subsists in original literary, dramatic, musical and artistic works, it also includes cinematograph films. It gives the author exclusive rights to reproduce, or authorize adaptations, translations etc.²⁰
 - d) Design: A design refers to the aesthetic, configuration, shape, ornament or composition of lines and colours which is applied to any man-made product. For a design to be registered, it needs to

¹⁶Ministry of Commerce and Industry, Department for Promotion of Industry and Internal Trade, Notification GSR 127(E), 19 February 2019 (India) accessed on January 10, 2026.

¹⁷"Startup India Scheme" (Startup India) <https://www.startupindia.gov.in/content/sih/en/startup-scheme.html> accessed on 01 January, 2026.

¹⁸ The Patents Act 1970, s 2(1)(m), 7(3).

¹⁹ The Trademarks Act 1999, s 2(1)(zb), 18(1).

²⁰ The Copyrights Act 1957, s 13, 14, 17.

be original, distinguishable to other product designs not containing any obscene or scandalous matter which has not yet been released to the public eye. Unauthorized imitation of a design by any person is considered an offence.²¹

4 Government initiatives

The last decade has seen remarkable growth of the startup ecosystem in India. It has only been possible because of the Government of India's flagship scheme 'Startup India' under the 'Startup India Initiative.' On 16 January 2016, the Startup Initiative was launched by our current Prime Minister Narendra Modi for the development and growth of businesses found by entrepreneurs all over India. For the purpose of Government schemes, the startups have been defined as entities which are registered under the DPIIT not prior to ten years as an LLP or Pvt. Ltd. company or a partnership firm with annual turnover not exceeding 100 crores INR in the previous year, working towards innovation, development, deployment or commercialization of new products, processes or services driven by technology or intellectual property. For a company to be considered a startup it should not be a split off or a reconstruction of a previously existing company. A company will lose its startup status if its previous years turnover exceeds above 100 crores or has been in operation for more than 10 years after incorporation.

The Startup India Initiative launched with the objectives of:

1. Simplification of the compliance regime: An entrepreneur who wants to establish a startup has to face various compliance and regulatory hurdles that distract him from concentrating on the core business. This initiative aims at providing simple, seamless and hurdle free fulfilment of regulatory formalities.
2. Providing funding support and incentives: Most often entrepreneurs with amazing innovation lack capital funding and incentives needed from the very beginning to start a startup business. The Government of India, through various schemes under the initiative have provided the entrepreneurs with various incentives and have acted as mediators bringing forward fundings (foreign as well as domestic).
3. Industry-academia partnership and incubation: For the growth of a startup ecosystem in India, there needs to be collaboration between industry and academia, in the hopes of turning ideas into market ready products and services. With mentorship, tech and business support, support in funding and investment, startup incubation bridges the gap between research and invention.²²

²¹ The Designs Act 2000, s 2(d), 4, 22

²² Press Information Bureau, Government of India, Ministry of Commerce and Industry, 'Startup India Programme' (Press Release, 25 July 2016) <https://pib.gov.in/newsite/PrintRelease.aspx?relid=147661> accessed 10 January 2026.

To realise these objectives and develop them into an actionable plan, the Government has introduced a Startup India Action Plan on 16 January, 2016, thus laying down the roadmap for a sustainable startup revolution.

1. Self-clarification: Entrepreneurs while opening a startup business need to comply with various laws. The clarification process of compliance is often tedious and time consuming. Through this initiative, entrepreneurs can self-clarify on the Government mobile app called the 'Startup Mobile App' which lets business owners clarify up to nine labour and environmental laws. In case of labour laws, inspection of businesses has been exempted for up to 3 years and inspection is to be made only when credible and verifiable complaints of violation have been filed, supported by at least one senior to the inspecting officer. In case of environment laws, startups falling under white category could self-clarify and only random checks would be carried out in such cases.
2. Startup India Hub: For the purpose of building an innovative, easing environment where startups could realise their potential, 'Startup India Hub' has been launched to provide young entrepreneurs collaborations with Central & State Governments, Indian and foreign VCs, angel networks, banks, incubators, legal partners, consultants, universities and R&D institutions etc. Mentorship and incubation are also some important points where it tries to build a platform for young innovative minds by acquainting them with educational institutions and private organisations who aspire to foster innovation. It also aims at assisting startups in various organisational, technological, commercial as well as financial help.
3. Feasible legal and IPR related support: With the objective of providing quick protection to startups regarding patents and other intellectual property rights, the Government of India has introduced a Scheme for facilitating Startups Intellectual Property Protection (SIPP) to facilitate filing of patent, design and trademark. This scheme include:
 - a) Aiming at providing fast and seamless patent, trademark, and design rights to startups, the applications shall be fast tracked for examination and disposal.
 - b) The government also provides a number of facilitators who advise startups on various IPRs, assist them in abroad filings, represent them in filing and disposal of IP application filings. The government bears the fee of the facilitators; startups have to only pay the statutory fee.
 - c) Startups recognised under the DPIIP shall be provided with 80% rebate on filing patents.

The 2024-25 financial year has marked itself as a year of significant achievement and growth for India's intellectual property rights landscape. According to the annual IPR Report 2024-25 by the Office of the Controller General of Patents, Designs and Trademarks, the past five-year trend in IP application filing has substantially increased from 5.28 lakh in 2020-21 to 7.49 lakh in 2024-25 with

the patent sector exhibiting a growth of about 19.75% as compared to the previous year. Trademark applications for registration were seen to increase significantly by 36.86%. With regards to design during the year of 2024-25, a total of 43,005 applications were filed, exhibiting a significant increase by 41.52% compared to previous year. A total number of 44,095 applications were received for copyright registration during FY 2024-25 out of which 26,767 were registered under copyright²³.

4. Equal platform for public procurement: Usually new and growing startups are not considered for government tenders due to the conditions stipulating prior experience and previous turnover. They prohibit startups from participating in such tenders. The government has for the realization of startup potential exempted them from conditions like prior experience and turnover.
5. Funding support: Startups in the beginning are high risk businesses. Due to this, they fail to access loans and investments. To provide funding support to these startups, the government will set up a fund with an initial corpus of INR 2,500 crore and a total corpus of INR 10,000 crore over a period of 4 years. The fund will be in the nature of Fund of Funds and shall participate in the capital of SEBI registered Venture Funds.
6. Credit guarantee fund: Due to the high failure risk stigmatized to startups, banks and investment ventures ask for ownership or collateral for providing loans and credit. The government has promoted venture debts to high potential early-stage startups with a Credit guarantee mechanism through National Credit Guarantee Trust Company (NCGTC)/ SIDBI envisaged with a budgetary Corpus of INR 500 crore per year for the next four years.
7. Tax exemption: an early-stage startup requires a huge amount of initial funding, with no profit at sight and lack of venture and angel investors, it becomes difficult for them to pay their taxes. To stimulate the development of startups, the government has exempted them from paying income tax for up to 3 years after incorporation.
8. Atal Innovation Mission (AIM) and Self-Employment and Talent Utilization Programme (SETU): With the objective of promoting entrepreneurship and innovation, the two programs AIM and SETU were introduced. Establishment of startup specific incubators, more than 500 tinkering labs, pre incubation training in various technology areas, seed funding and mentoring for startups were its main components. To promote innovation, innovation awards were established.
9. Development of research parks: The Government shall set up 7 new research parks in institutes like IIT Guwahati, Hyderabad, Bangalore, Gandhinagar, Delhi with an initial investment of INR 100

²³ Office of the Controller General of Patents, Designs, Trade Marks and Geographical Indications (CGPDTM), Annual Report 2024-25 (Ministry of Commerce and Industry, Government of India 2025) 8-9.

crores each. The research parks shall be modelled based on the research park setup at IIT Madras to promote collaborations between academia and industry.

10. Closure facilities: To simplify the procedural complications while closing a company and to make it a much faster systematic process, the Startup India Initiative has included a fast track or voluntary close-up option through the Insolvency and Bankruptcy Code, 2016, for startups with a simple debt structure. The close down procedure starts within 90 days of applying, when an insolvency officer is assigned to manage the company for liquidating its assets and paying its creditors within six months of such appointment.^{24,25}

As of 31st October 2024, according to the Ministry of Corporate Affairs (MCA) a total of 6,385 DPIIT recognised startups have been categorized as closed i.e. dissolved or struck off. This estimate includes quiet shut downs and dormant companies as well.²⁶ This data is more than the startup closure data presented by the MCA in the financial year 2023 which was 5063.²⁷ Many well-known companies closed off their operation in 2025, such as 'Blusmart', 'Dunzo' and 'hike'.²⁸

5 Conclusion

The startup ecosystem in India is evolving day by day. With young minds carrying new innovations, they just require a guiding agency that can guide them on the various legal procedures that are required to open and run a business. The Government of India has on this front taken remarkable steps to ensure the growth of the startups culture in India. Research and academia form a huge factor which is paving the way for new ideas and innovations. By looking at the number of startup businesses that are exiting the market, the need for proper implementation of these schemes should be ensured by the government. It is crucial that India engages towards developing an entrepreneurial mindset with the purpose of creating market ready innovations that help us grow into a more sustainable and developed market around the world.

²⁴ The Insolvency and Bankruptcy Code 2016, s 55, 56, 57.

²⁵ Department for Promotion of Industry and Internal Trade (DPIIT), Startup Action Plan 2016, Section 2, (2.1), (2.2), (2.3). <https://www.startupindia.gov.in/content/dam/invest-india/Templates/public/Action%20Plan.pdf> accessed 30 December, 2025

²⁶ Government of India, Ministry of Commerce and Industry, Department for Promotion of Industry and Internal Trade, Startup India Scheme (Lok Sabha Unstarred Question No 441, answered 2 December 2025) https://sansad.in/getFile/loksabhaquestions/annex/186/AU2738_9TqnV9.pdf?source= accessed 04 January, 2026

²⁷ Government of India, Ministry of Commerce and Industry, Department for Promotion of Industry and Internal Trade, Current Status of Startups (Lok Sabha Unstarred Question No 1181, answered 11 February 2025) https://sansad.in/getFile/loksabhaquestions/annex/184/AU1181_qZXLgt.pdf?source=pqals

²⁸ TOI Business Desk, "Startups in 2025: Fewer Closures but Big Names Stumble — BluSmart, Dunzo & Others Exit" The Times of India (December 27, 2025) <https://timesofindia.indiatimes.com/business/india-business/startups-in-2025-fewer-closures-but-big-names-stumble-blusmart-dunzo-others-exit/articleshow/126201727.cms> accessed 01 January, 2026.