DOING BUSINESS IN INDIA

1. Starting a Business In India

A business enterprise is an economic institution engaged in the production and/or distribution of goods and services in order to earn profits and acquire wealth. It includes a large number of activities which may be classified into two broad categories i.e. Industry and Commerce. Every entrepreneur aims at starting a business and building it into a successful enterprise.

The **Directorates of Industries** are the nodal agencies in different States which assist and guide new entrepreneurs in starting up an industrial unit in the concerned State. They provide an interface between industry and other agencies for industry inputs and enable the entrepreneur to get different industrial approvals and clearances from various departments at a single point-Single Window.

2. Financing a Business

Business finance refers to the funds and monetary support required by an entrepreneur for carrying out the various activities relating to his/ her business organization. It is needed at every stage of a business life cycle. Though the amount of the capital needed by an enterprise depends upon the nature and size of the business, but its timely and adequate supply is indispensable for any form of industrial set up (whether small, medium or large). The financial system in India can be categorized into money market and capital market. For regulating the operations of money market, the Reserve Bank of India (RBI) is the supreme authority, whereas the Securities and Exchange Board of India (SEBI) supervises the functioning of the capital market.
The major constituents in the system through which an entrepreneur can raise money for his/her enterprise are: -
a) **Venture Capital**: Venture Capital is an important source of finance for those small and medium-sized firms Venture capitalists comprise of professionals of various fields. They provide funds (known as Venture Capital Fund) to these firms after scrutinizing the projects.
b) **Banks**: A bank is an institution that accepts deposits of money from the public, which are repayable on demand and withdrawable by cheque. Such deposits are used for lending to others and not for financing its own business of any kind. The term lending includes both direct lending to borrowers and indirect lending through investment in open market securities.
c) **Government Schemes:** An entrepreneur requires a continuous flow of funds not only for setting up of his/ her business, but also for successful operation as well as regular upgradation/ modernization of the industrial unit. To meet this requirement, the Government (both at the Central and State level) has been undertaking several steps like setting up of banks and financial institutions; formulating various policies and schemes, etc. All such measures are specifically focused towards the promotion and development of small and medium enterprises
d) **Non-Banking Financial Companies**: Non-banking financial companies (NBFCs) are fast emerging as an important segment of Indian financial system. It is an

heterogeneous group of institutions (other than commercial and co-operative banks) performing financial intermediation in a variety of ways, like accepting deposits, making loans and advances, leasing, hire purchase, etc. They raise funds from the public, directly or indirectly, and lend them to ultimate spenders.

e) **Financial Institutions**: The Government of India, in order to provide adequate supply of credit to various sectors of the economy, has evolved a well-developed structure of financial institutions in the country. These financial institutions can be broadly categorized into All India institutions and State level institutions, depending upon the geographical coverage of their operations. At the national level, they provide long and medium term loans at reasonable rates of interest.

3. Legal Considerations for a Business

Legal aspects are an indispensable part of a successful business environment in any country. They reflect the policy framework and the mind-set of the Governmental structure of that country. In India, the most important law which regulates all aspects relating to a company is the Companies Act, 1956. It contains provisions relating to formation of a company, powers and responsibilities of the directors and managers, raising of capital, holding company meetings, maintenance and audit of company accounts, powers of inspection and investigation of company affairs, reconstruction and amalgamation of a company and even winding up of a company.

The Indian Contract Act, 1872, is another legislation which regulates all the transactions of a company. It lays down the general principles relating to the formation and enforceability of contracts; rules governing the provisions of an agreement and offer; the various types of contracts including those of indemnity and guarantee, bailment and pledge and agency. It also contains provisions pertaining to breach of a contract.

The other major legislations are:- the Industries (Development and Regulation) Act 1951; Trade Unions Act; the Competition Act, 2002; the Arbitration and Conciliation Act, 1996; the Foreign Exchange Management Act (FEMA),1999; laws relating to intellectual property rights; as well as laws relating to labour welfare.

4. Taxations of Business in India

India has a well-developed tax structure. The power to levy taxes and duties is distributed among the three tiers of Government, in accordance with the provisions of the Indian Constitution. The main taxes/duties that the Union Government is empowered to levy are: -

a) Income Tax (except tax on agricultural income, which the State Governments can levy)

b) Customs duties, Central Excise and Sales Tax and

c) Service Tax

The principal taxes levied by the State Governments are: -

a) Sales Tax (tax on intra-State sale of goods),

b) Stamp Duty (duty on transfer of property),

c) State Excise (duty on manufacture of alcohol),

d) Land Revenue (levy on land used for agricultural/non-agricultural purposes),

e) Duty on Entertainment and Tax on Professions & Callings.

The Local Bodies are empowered to levy: -
a) Tax on properties (buildings, etc.),
b) Octroi (tax on entry of goods for use/consumption within areas of the Local Bodies),
c) Tax on Markets and
d) Tax/User Charges for utilities like water supply, drainage, etc.

For further information, you can visit: -
a) Taxation of Individuals - Link
b) Taxation of Partnerships - Link
c) Taxation of Corporates - Link
d) Taxation of other forms of Business Entities - Link
e) Service Tax - Link
f) TDS, TCS, TAN - Link