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FAIRFIELD
Institute of Management & Technology

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Reference Material for Three Years

Bachelor in Business Administration (General)

Code : 017

Semester – V

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INCOME TAX LAW & PRACTICE (301)

INTRODUCTION TO INCOME TAX ACT 1961

Income tax is direct tax which is imposed upon income of the person. It is major source of income of central Government. Income tax is computed on accrued or received net taxable income by person during a previous year according to prescribed rate of income tax in current assessment year.

PREVIOUS YEAR- (sec.3) A previous year is that year in which income is earned and received. Previous year may be prior to assessment year and it may be for 12 month or less than 12 month. For ex.- previous year for assessment year 2018-19 is 2017-18.

In case of newly established business first previous year start from the day of setting of the business and end on 31st march of next year.

In case of undisclosed income, year in which the income arised will be previous year. If such year is not known , year in which such income comes to knowledge of IT department will be the previous year.

ASSESSMENT YEAR- sec. 2(9) current financial year is called assessment year, it start from 1st of April and end to 31st of March next year. Tax of any person is computed in assessment year for income earned in previous year. It means in assessment 2017-18 tax is computed for income earned in previous year 2016-17.

PERSON- sec. 2(31) According to income tax act 1961 person includes following-

1. individual
2. Hindu Undivided Family (HUF)
3. Company
4. firm
5. An association of person / Body of individual
6. Local Authority
7. Any artificial juridical person

ASSESSEE - sec.2(7) According to income tax act 1961, the following are included in term of Assessee

1. The person who is liable to pay tax
2. The person who is liable to pay penalty and interest along with tax.
3. The person upon whom the proceeding of assessment is started.
4. Deemed Assessee.

GROSS TOTAL INCOME- Gross total income of an assessee means the total income before deductions under sec. 80C TO 80U. if assessee has taxable income under only one head, then only that income under one head will be treated as GROSS TOTAL INCOME. GTI includes-

1. Income from salary
2. Income from House property
3. Income from business or profession
4. Income from capital gain
5. Income from other sources

TOTAL INCOME - the income which come after deducting deduction under sec. 80C TO 80U, is called TOTAL INCOME. It is also known as NET TAXABLE INCOME and income tax computed on this income.

INCOME IN WHICH TAX TO BE PAID IN SAME ASSESMENT YEAR IN WHICH IT EARNED-

1. Income from shipping business of non resident (SEC. 173)
2. Income of person leaving India.(SEC. 174)
3. AOP & BOI formed for a particular event or purpose .(SEC. 174A)
4. Income of person from transfer of property to avoid tax.(SEC.175)
5. Income of discontinued business.(SEC.176)

AGRICULTURE INCOME- sec. 2(1A)- following income covered under agriculture income –

1. Rent or revenue derived from land used for agriculture purpose, and land must situated in India.
2. Any income derived from cultivator or receiver of rent in kind of employing.
3. Income arised from farm building .

NON –AGRICULTURE INCOME – following income regarded as non agriculture income

1. Income from land used for properties or as bricks fields
2. Income from land used as stone quarries.
3. Income from fisheries
4. Income from water supply for irrigation purpose
5. Income from land let for storing crops or timber.

PARTLY AGRICULTURE AND PARTLY NON AGRICULTURE INCOME-

If an income comprises of both agriculture and non-agriculture income in such a case it become necessary on the part of assesse to segregate the income into two components – agriculture income and non- agriculture income.

Q. from the following information compute agriculture income and business income –

Sale of sugar- -24,00,000. Manufacturing exp. including depreciation – 6,00,000, cost of sugarcane – 5,00,000, market value of sugarcane- 15,00,000 , cultivation exp. 4,20,000.

TAX TREATMENT OF AGRICULTURE INCOME-

Agriculture income is exempt from tax but it shall be included in the total income in case of certain assesse for the purpose of determining the rate of tax on the non- agriculture income. This is also known as integration of agriculture income with non-agriculture income or the indirect way the taxing the agriculture income.

Integration of agriculture income with non-agriculture income shall be done in case of individual, HUF, AOP, BOI &artificial juridical person, it shall not be done in case of firm, company, co-operative society and local authority .

Integration of agriculture income with non-agriculture shall be done in the following 2 cases only-

1. Net agriculture income exceeds the maximum amount not charged to tax
2. Net agriculture income exceeds 5000 p.a

STEPS TO CALCULATE TAX-

1. Add net agriculture and non-agriculture income and calculate tax on it.
2. Add net agriculture income with maximum amount that is not chargeable to tax and calculate tax on it.
3. Deduct tax calculate in step no.2 from step no. 1 (tax on step 1- tax on step 2)

PARTLY AGRICULTURE INCOME AND PARTLY BUSINESS INCOME-

Types of income	Agriculture income	Business income
Income from growing and manufacturing tea India	60%	40%
Income from growing ,curing of coffee in India	75%	25%
Income from growing , curing,roasting, coffee in India	60%	40%
Income from growing and manufacturing of rubber in India	65%	35%

RESIDTENIAL STATUS OF AN INDIVIDUAL-

An individual is said to be resident in India if he satisfied any one of the basic condition-

1. He should be in India for 182 days or more during previous year.
2. He should be in India for 60 days or more in previous year and 365 days in preceeding four previous year.

However in the following cases only first condition should be satisfied.

1. A person of Indian origin who visit India during previous year.
2. A person leave India for employment purpose and crew members.

If a person is resident in India than either he is resident and ordinary resident or resident but not ordinary resident, its depend upon additional conditions.

If he satisfied both additional condition than he is said to be resident and ordinary resident otherwise resident but not ordinary resident.

ADDITIONAL CONDITION

1. He should be resident in 2 year out of 10 previous year.
2. He should be 730 days in India during 7 year preceeding the previous year.

INCIDENCE OF TAX AS PER RESIDENTIAL STATUS

Types of income	ROR	NOR	NR
Income received or deemed to be received in India whether earned in India or outside India.	YES	YES	YES
Income earn in India whether received outside India.	YES	YES	YES
Income earned outside India ,received outside India but business controlled from India.	YES	YES	NO
Income earned outside India , received outside India but bring India during previous year from any other sources.	YES	NO	NO
Past untaxed income brought to India	NO	NO	NO

INCOME UNDER THE HEAD SALARY (UNIT 2)

Basis of charge (sec. 15)

1. Income under the head salary is taxable only if there is employer-employee relationship.
2. Salary is taxable on receipt or due basis whichever is earlier.

3. Arrear of salary, not charged to tax in an earlier previous year, are taxable in the previous year in which it is paid.
4. If any salary paid in advance is included in the total income of previous year, it shall not be included again in the total income when salary become due.
5. Any salary, bonus etc. by whatever name is called received by a partner from the firm shall not be regarded as salary.
6. Advance salary is taxable ,but advance against salary is not taxable(loan from employer)

Grade system-

Q. compute taxable salary for A/Y 16-17.

1. 10.000-2,000-14,000-3,000-20,000 he was appointed from 1-7-13.

Parts of salary- basically salary divided into following parts

1. Allowances
2. Perquisites
3. Retirement benefit**.**

Allowances- monetary benefit given by employer to employee is called allowance.it is divided into different types.

1. Following allowance are exempt to the extent of amount received or amount spent whichever is less:-

a. Travelling allowance
b. Daily allowance
c. Conveyance allowance
d. Helper allowance
e. Academic allowance
f. Uniform allowance

2. Following allowance are exempt to the extent of amount received orlimit specified whichever is less:-

a. Children education allowance- Rs. 100 p.m per child up to 2 child.
b. Hostel expenditure allowance- Rs. 300 p.m per child up to 2 child.
c. Transport allowance- (Rs. 3200p.m for blind and handicapped).
d. Allowance to transport employee- 70% of allowance or 6000 p.m whichever is less.
e. Tribal area allowance- Rs. 200 p.m.
f. Underground allowance- Rs. 800 p.m.
g. Border area allowance- 200 to 1300 p.m

h. Hill compensatory allowance- 300 p.m to 7,000 p.m

3. Following allowance are fully taxable :-

a. Dearness allowance
b. City compensatory allowance
c. Medical allowance
d. Family allowance
e. Non practicing allowance
f. Warden allowance
g. Telephone allowance
h. Lunch allowance

4. Allowance exempt for certain person only-

a. Citizen of India who is gov. employee rendering service outside India. Any allowance received outside India is fully exempt.
b. All allowance received by judge of high court and supreme court.
c. Allowance received by employee of UNO.
d. Daily AND constituency allowance received by MPs and MLAs exempt.

5. House rent allowance- least of following is exempt-

a. Actual amount received
b. Rent paid less 10% of salary.
c. 50% of salary for metro city and 40% for other city.

Note – salary means, basic salary plus D.A plus commissions

PERQUISITES

Non- monetary benefit given by employer to employee is called perquisites. There are following types of perquisites-

Rent free accommodation:-

1. For govt. employee- it is decided as per gov. rule, generally it is exempt.

2. For other employee-

a. Accommodation is owned by employer- in this case taxability is depend upon population of the city, if population of city is more than *25 lakhs than 15% of salary* is taxable and for more than *10 lakhs butup to 25 lakhs 10% of salary* and if population is less than *10 lakhs7.5% of salary is taxable.*
b. Accommodation is not owned by employer- in this case *15% of salaryor actual rent paid* by employer *whichever is less* taxable.
c. Accommodation is provided in hotel- *24% of salary or actual charge* paid by employer whichever is less taxable. However nothing shall be taxable if accommodation is provided for not more than 15 days and on transfer of employee from one place to another.

Notes: –

1. Salary means- basic salary plus D.A plus bonus plus commission plus all taxable allowance.
2. If furniture is also provided with house then 10% of cost of furniture or actual hire charges if taken on rent, shall be added with taxable amount of RFA.
3. In case of transfer of employee from one place to another place, employee is provided house at new place as well as retain house at old place than for first 90 days one house with lower value is taxable but after 90 days both house is taxable.
4. If RFA is provided in remote area or mining sites or onshore oil exploration site then nothing shall be taxable.
5. If any amount is recovered from employee in behalf of RFA than such amount should be deducted from total taxable amount of RFA.

Value of interest free loan:-

If any interest free loan or loan at concessional rate is provided from employer to employee than ,value of benefit derived from such loan is taxable in hand of employee. For calculation of benefit rate of interest charged by SBI in previous is taken.

However nothing shall be taxable if amount of loan do not exceed Rs. 20,000 or loan is provided for treatment of specified diseases.

Use and transfer of movable assets:-

If any movable assets is provided by employer to employee for use than 10% p.a of the actual cost or hire charges is taxable in hand of employee.

If an asset is transferred to employee than any benefit from such transfer is also taxable in hand of employee. For calculation of such benefit following depreciation is taken-

a. Computer & electronic item- 50% on basis of WDV.
b. Motor cars - 20% on basis of WDV.
c. Any other assets - 10% on basis of SLM.

Other benefits:-

a. Sweeper, watchman, gardener or personal attendant- in all cases actual cost to employer is taxable in hand of employee.
b. Gas ,electricity or water- manufacturing cost per unit or amount paid to outside agency, shall be taxable
c. Free education facility- it is taxable if amount of benefit is exceed Rs. 1000 per child p.m for two child.
d. Credit card bill- if card is used by employee or his family for personal purpose and bill paid or reimbursed by employer than it is taxable in hand of employee. However nothing shall be taxable if it is used exclusively for official purpose.

VALUATION OF MOTOR CAR

S.NO.	Situation	Exp. paid by	Purpose for which car is used	Taxable value
1	Car owned or hired by employer	Employer	official	Nil
2	Car owned by employer	Employer	Personal	Fuel and maintainance+driversalary+depreciation @10%
3	Car owned or hired by employer	Employer	Partly official and partial private	Car up to 1.6 lit. engine capacity -1800 p.m and for above 1.6 lit. – 2400 p.m+ diver salary 900 p.m
4	Car	Employee	Partly	Car up to 1.6 lit.- 600 p.m and above

	owned or hired by employer		official and partial private	1.6 lit. 900 p.m + driver 900 p.m
5	Car is owned by employee	employer	official	Nil
6	Car is owned by employer	Employee	personal	Nil
7	Car is owned by employee	Employer	Partly official and partial private	Car up to 1.6 lit.- 1800 p.m and above 1.6 lit. 2400 p.m + driver 900 p.m

Medical perquisites:-

1. Expenditure incurred or reimbursed on any medical treatment provided to an employee or any member of his family is fully exempt without limit, for treatment in any hospital, dispensary maintained by employer, gov. ,local authority or approved by gov. for treatment of specified disease.
2. Health insurance premium reimbursed or paid on behalf of employee or any member of his family is fully exempt.
3. Reimbursement by employer of any amount actually spent by employee for obtaining his or any member of his family treatment in any hospital other than point 1, is taxable if amount is more than Rs. 15,000.
4. If employer provided treatment in any other country than medical expenses ,expenses on stay and travel expenses with one attendant is fully exempt subject to permitted by **RBI.**

Leave travel concession:- Any concession received by employee for himself or his family for travelling to any place in India is exempt, to the extent amount spent, subject to following condition-

1. Exemption can be claimed for two journey in a block of four year i.e 2002-05,2006-09,2010-13 and so on.
2. Exemption is available for two children but exemption will be available for all the children borne before October 1, 1998.

3. **Amount of exemption-**

a. If journey is performed by air than economy class fair with shortest route.
b. In case of rail then first class rail fare by shortest route.
c. In case of bus, first class deluxe bus fare of recognised public transport.

RETIREMENT BENEFIT

Pension:-

For taxability point of view pension divided in two types-

1. Uncommuted pension- it is taxable for all employee as salary.
2. Commuted pension- it is taxable as under-

a. For gov. employee - fully exempt.
b. For non-gov. employee - *one third of commuted value* if he received gratuity but *one half of commuted value* if he not received gratuity.

Gratuity:-

1. For gov. employee- fully exempt.
2. For non-gov. employee, covered under payment of gratuity act-

   Least of the following amount is exempt

a. 15/26 days salary of every completed year of service or part thereof in excess of 6 month.
b. 20,000,00
c. Amount received.

   NOTE- salary means last drawn basic salary plus D.A.

3. For non gov. employee not covered under payment of gratuity act1972.

   Least of the following is exempt

a. 15/30 days salary for every completed year of service
b. 20,000,00
c. Amount received

   NOTE- salary means average salary of last 10 months preceding the month of retirement.

Compensation on voluntary retirement:-

Least of the following is exempt

a. Amount received
b. 5,00,000.

Condition for claiming VRS:-

1. Exemption shall be allowed only to employee of central/state govt. public sector undertaking, any other statutory corporation, local authority, university, IIT OR notified institute for management.
2. Exemption shall be allowed only if compensation does not exceed three month salary for each completed year of service or salary of balance month of service left before his normal retirement.

LEAVE SALARY-

1. Leave encashment during continuation of service is fully taxable for all employee
2. Encashment of leave after retirement – for gov. employee fully exempt . and for other employee least of the following amount is exempt –

a. Actual amount received.
b. Maximum amount 3,00,000
c. 10 month average salary for preceding the month of retirement
d. Cash equivalent of unavail leave (unavailed leave should be calculated on the basis of 30 days leave in one year)

Provident fund:-

It is basically retirement benefit scheme . under the scheme employee contribute part of his/her salary and employer contribute fixed amount 10 to 12 % of salary to employee. There are following types of provident fund.

1. Statutory provident fund (SPF)
2. Recognized provident fund (RPF)
3. Unrecognized provident fund (URPF)
4. Public provident fund (PPF)

PROVISION REGARDING SPF-

This scheme is applicable for gov, semi gov. and local authority and universities employees. Any interest earned on contribution of employee and employer is fully exempt . contribution by employer is fully exempt. Contribution of employee is eligible for deduction under section 80 C.

PROVISION REGARDING RPF-

A provident scheme in which the employee provident fund and miscellaneous provision act,1952 applies is recognised provident fund. Contribution of employer is exempt up to 12% of salary and interest cr. In RPF exempt up to 9.5 % p.a. exemption u/s 80C available for employee contribution.

PROVISION REGARDING URPF-

Contribution made by employer is exempt from tax, int. cr. To the fund is also exempt at the time of credit but no exemption on employee contribution available u/s 80C. on retirement payment received which represent employee own contribution is exempt. Int. received on employee contribution is taxable under income from other sources and balance (employer contribution and int.) is taxable under the head salary.

PROVISION REGARDING PPF-

Central gov. has established the PPF for the benefit of general public to mobiles personal saving. Any member of public (whether salaried , self employed) can contribute towards PPF. Minimum contribution is 500 and maximum contribution is 1,00,000 p.a . lock in period is 15 year or more

Deductions(sec.16)

1. Professional tax- any amount paid by employee shall be allowed as deduction in the year of payment.
2. Entertainment allowance- at first this is taxable for all employee but govt. employee can claim deduction under this section which is least of the following-

a. Amount received
b. 20% of salary
c. 5000

INCOME FROM HOUSE PROPERTY

BASIS OF CHARGE(SEC.22)

1. Annual value of building and land appurtenant thereto is taxable under this head.
2. If building is occupied by assesse for his own business or profession then nothing shall be taxable.
3. Income under this head is taxable only if assesse is owner of the building.
4. Even if letting out is business of assesse, still rental income of building is taxable under head house property only.
5. However rental income is not taxable if building is letout to carry on business and in case of composite rent, if it is not separable.

DEEMED OWNER(SEC. 27)

1. In the case of transfer to spouse or minor child(not being a minor married daughter),without adequate consideration ,transferor shall be deemed owner.
2. Holder of impartiable estate is deemed as owner.

3. In case of allotment or lease ,the person to whom building has been allotted shall be deemed as owner.
4. The person who acquired house without registration .
5. The lessee of building in case building is leased out for not less than 12 year is deemed as owner.
6. In case of disputed ownership income shall be taxable in hand of recipient

METHOD OF COMPUTATION

Gross annual value --------------------------------

Less-municipal tax paid by owner----------------------------

Annual value (net annual value)------------------------------

Less- Deduction u/s 24--------------------------------

DEDUCTIONS (SEC.24)

1. Standard deduction- 30% of net annual value. if NAV is nil than std. deduction shall be nil.
2. Interest on borrowed capital-this deduction has two parts in the first part previous year int. is deductible and in the second part one fifth of int. on pre-construction period is deductible.

INTEREST ON LOAN FOR SELF OCCUPIED HOUSE

1. In respect of such property, int. on capital borrowed for purchase, construction, repair, renewal or reconstruction is deductible up to Rs.30, 000. however if loan is taken on or after 1-04-1999 and property is acquired and constructed within five year from end of financial year in which capital was borrowed, the total deduction of interest shall not exceed Rs. 2,00,000.
2. Deduction of Rs. 2, 00,000 shall be allowed only if assesses furnishes a certificate, from the person to whom any int. is payable on capital borrowed.

ANNUAL VALUE (SEC. 23)

CASE 1-building is let out throughout the previous year

Gross annual value of such property is expected rent or actual rent whicheveris higher. Expected rent is municipal value or fair rent whichever is higher but it cannot exceed standard rent.

CASE 2-self occupied building and building which could not occupied due to employment.

Annual value of such property is nil.

CASE 3- Deemed to be le out property

In case there is more than one house property is self occupied than except one house remaining shall be deemed to be let out at the option of assesse.

CASE 4- property which is let out but remained vacant during the whole or part of the previous year.

In this case actual rent is taken as GAV. If in the vacancy period property is self occupied than normal rule is applied for determining GAV.

UNREALISED RENT

1. If due to any reason assesse couldnot realise rent in previous year such rent is called unrealised rent.
2. Such unrealised rent should be deducted from actual rent or GAV determined.
3. If assesse recover unrealised portion of rent than it is treated as income of assesse of that previous year in which rent is realised, whether or not assesse is owner of property in that assessment year.

CAPITAL GAINS (UNIT 2)

Basis of charge (sec. 45(1))

1. Any profit or gains arising from the transfer of a capital assets, shall be chargeable to income tax under the head capital gain.
2. It shall be deemed to be the income of p/y in which transfer took place.
3. Capital gain is exempt if it is covered u/s 54, 54 B, 54D, etc.

Capital assets (sec. 2(14))

1. It means property of any kind held by assessee whether or not connected with his business or profession.

However it does not include:-

a. Stock in trade
b. Personal effects (movable property held for personal use by assessee or any member of his family but it does not include jewellery, Archaeological collections, drawing, painting ,or any work of art.)
c. Agriculture land in India not situated in urban area.
d. Gold deposit bonds issued under gold deposit scheme 1999.

Types of capital assets

There are two types of capital assets:-

1. Short term capital assets.
2. Long term capital assets.

Short term capital assets

1. A capital assets held by assessee for not more than 36 months immediately preceding the Date of transfer.
2. However in the following cases ,if period of holding is not more than 12 months immediately preceding the date of transfer, than it shall be treated as short term capital assets-

a. Share held in a co.
b. Any security listed on recognised stock exchange.
c. Unit of UTI/Mutual fund.
d. Zero coupon bond.

Long term capital assets

A capital assets which is not a short term capital assets is called long term capital assets.

Transfer

Transfer in relation to capital assets includes:-

1. Sale ,exchange or to give up or surrender of assets
2. Extinguishment of any right therein
3. Compulsory acquisition thereof under any law.
4. In case where the assets is converted into stock in trade of a business, such conversion.
5. Allowing the possession of any immovable property under transfer of property act 1882.
6. Allotment or lease under a housing building scheme of society, co. or other association.

Method of computation of capital gains

Sale consideration received/ accrued on transfer-

Less: cost of acquisition.

Less: cost of improvement.

Less: expenditure incurred wholly and exclusively in connection with transfer.

Cost of acquisition

1. It means amount which assessee has paid or incurred at the time of acquisition of assets.
2. In relation to goodwill ,tenancy right, route permit, loom hours, right to carry on business, patents, copyright or trade mark, the amount of purchase price in considered as COA. In case of self- generated , COA is nil.
3. Cost of acquisition of assets acquired before 1/4/81 is actual cost of owner or fair market value on 1/4/81 is to be taken at the option of assessee.
4. In case of LTCG, index COA is to be computed with following formula-

Cost of improvement

1. All expenditure of capital nature incurred on improvement of assets shall be treated as COI.
2. COI incurred before 1/4/81 shall be ignored in all cases.
3. In case of LTCG, index COI is to be computed with following formulA

Exemption of capital gain

Sec. 54

1. Individual and HUF are entitled to take exemption under this section.
2. If one residential house is transferred and other residential house is purchase within two year or completed construction within 3 year than capital gain invested is exempt from tax.

3. If unutilised amount is deposit in a capital gain A/C scheme up to date of furnishing return of income than such amount is also exempted.
4. Holding period of assets transferred should be minimum 3 year/1 year.
5. If new assets purchase by assessee is sold within 3 year from date of purchase/constructed than capital gain claim as exempt shall be reduced from COA of new assets.

Sec. 54B

1. Only individual can claim exemption under this section.
2. If one agriculture land is transferred and other agriculture land is purchase within two year from date of transfer than capital gain invested is exempt from tax.
3. Same as sec. 54
4. Holding period of assets transferred is 2 year or more.
5. Same as section 54.

Sec. 54D

1. All assessee is entitled to claim exemption under this section.
2. If land and building for industrial undertaking is transferred and other land and building for industrial undertaking is purchased within 3 year from such transfer than capital gain invested is exempt from tax.
3. Same as sec. 54
4. Same as sec. 54B.
5. Same as sec. 54.

Sec. 54EC

1. Same as 54D
2. Ay any assets transferred and long term specified assets (bonds of NHAI,RECI) is purchased within 6 month from date of such transfer than capital gain invested is exempt from tax.
3. Not applicable.
4. Same as sec. 54
5. If sold within 3 year of acquisition , exempted capital gain taxable as LTCG in the year of transfer of new assets.

Sec. 54F

1. Same as sec. 54.
2. If any assets other than residential house is transferred and residential house is purchase within 2 year or constructed within 3 year from date of transfer than proportionate net consideration invested is exempt from tax.
3. Same as sec. 54
4. Same as sec. 54

5. If sold within 3 year from date of purchase/construction ,capital gain exempted shall be taxable as LTCG in the year of transfer

INCOME FROM OTHER SOURCES

Basis of charge sec.56(1)

A sources of income which does not specifically fall under any one of the other four heads of income is to be computed under the head income from other sources.

Specific income sec.56(2)

1. Dividends.
2. Winnings from lotteries, crossword puzzle, races, card game, gambling or betting of any form.
3. Income from letting of furniture, machinery, plant, etc.
4. Interest on securities.
5. Sum received under keyman insurance policy including bonus.
6. Where any sum of money, the aggregate value of which exceeds 50,000. Received without consideration by any individual or HUF the whole of such sum is taxable.

   Provided shall be taxable in case of gift received from any relative, or on the occasion of marriage of individual ,or under a will or by way of inheritance or from any local authority, trust,university.

NOTE- relative means:-

1. Spouse of individual
2. Brother or sister of individual
3. Brother or sister of the spouse of the individual
4. Brother or sister of either of parents of the individual.
5. Any lineal ascendant or decendant of individual.

Taxability of dividend

1. Any amount declared, distributed or paid by a domestic company by way of dividends is exempt from tax in hand of employee, because company who declared or paid dividends pay corporate dividend tax which is currently 16.2225% (15% plus surcharge @5% plus 2% education cess and @1% secondary and higher education cess.).
2. Dividend from foreign co. is taxable in hand of assesse.
3. Dividend declared or paid by UTI and mutual fund unit is also exempt.

Taxability of lotteries, puzzle game, horse race, card game

1. Any winning amount from lotteries, game, horse race is taxable in the hand of assesse with flat rate which is 30% plus education cess @ 2% and SHEC @ 1%.
2. No deduction is allowed in respect of any expenditure incurred in connection to winning such amount.
3. In case of horse race , expenses relating to activity of owning and maintaining race horse is allowed for deduction.
4. If net income (gross income minus TDS) is given in question than for computation of tax it should be GROSSING UP by use of following formula:-

Taxability of interest income

1. Income, by way of interest on securities, is chargeable under the head income from other sources if it is not chargeable under the head PGBP.
2. Interest is taxable on receipts basis if assesse follow cash basis accounting system and on due basis if no accounting system is followed.
3. In case of govt. securities there is no need for grossing up of income because it is exempt.
4. In case of interest on other securities , if NET amount is given than it should be grossed up for computation of tax

NOTE:-

1. Rate of TDS in case of saving bond is 10%.
2. Rate of TDS for non gov. securities whether listed or not is 10%.
3. In case of saving bond if interest income is more than 10,000 than TDS is deducted.
4. An case of interest on debenture ,no tax is deductible if amount of interest is less than Rs. 2500.
5. Collection charges, interest on loan, any other expenditure not being capital nature is allowed as deduction from interest income.

Taxability of income from letting of machinery , furniture, plant etc.

1. If any income earn from letting of machinery, furniture, plant and it nor chargeable under the head PGBP than it is chargeable under the head income from other sources.
2. Following expenses are allowed for deduction:-

a. Repair and insurance of machinery, plant , furniture.
b. Depreciation based on block of assets.
c. Any other expenditure which is exclusively for earning such income and not in capital nature.

Taxability of gift from unrelated person

1. Where any sum of money received by assesse which is more than 50,000 Rs. Without consideration than whole of the aggregate value is taxable in hand of recipient.
2. Where any immovable property is received by assesse without consideration which stamp duty value is exceeds RS. 50,000,THE stamp duty value of such property is taxable in hand of recipient.
3. Where any movable property is received by assesse without consideration which fair market value exceeds RS. 50,000, the whole of aggregate fair market value of such property shall be taxable.
4. Where any movable property acquired for a consideration which is less than fair market value of such property than amount exceeding RS. 50,000 the aggregate fair market value of such property as exceeds such consideration shall be taxable in the hand of recipient.

NOTE:-

1. After death of employee , if pension received by his legal heir such pension is called family pension. Family pension is considered as income of person who receive such pension and taxable under income from other sources.
2. Deduction is allowed in case of family pension which is 33.33% of pension or 15,000RS. Whichever is less.
3. Interest on post office saving bank account is exempt up to 3500 RS. For individual account and 7000 RS. For joint account.
4. Interest paid outside india on which TDS is not deducted is not allowed for deduction.
5. Interest paid on amounts borrowed for meeting tax liability is not deductible.

EDUCTIONS

SECTION 80C

1. This deduction is available only to individual and HUF.
2. Maximum amount of deduction under this section is 1,50,000.
3. On the following amounts deduction is allowed:-

a. Life insurance premium on life of himself, spouse, and children, in HUF any member of family. Premium paid in excess of 10% of the capital sum assured shall not allowed for deduction.
b. Contribution by employee towards SPF and RPF.
c. Contribution by any person to public provident fund (PPF)

d. Subscription to national saving certificate (NSC) & national saving scheme (NSS).
e. Contribution in any unique link investment plan (ULIP).
f. Amount invested in deposit scheme of a public company engaged in infrastructure facility or approved mutual fund.
g. Repayment of loan taken from central/state govt./any other bank/LIC/National housing bank, employer where employer is statutory corporation or, public co. or university, or college or local authority or co-operative society, for purchase or construction of a residential house property.
h. Tuition fees at the time of admission or thereafter for full time education for any two children of such individual to any university, college, school or other educational institution situated in india.
i. Fixed deposit with scheduled bank for not less than five year.
j. Subscription to notified bond of NABARD (National agriculture bank of rural development)
k. Investment in sukanyasamridhi account and amount can be invested by an individual as guardian in the name of girl child who is of the age of 10 year or less. Interest received is exempt. Amount received in maturity is also exempt. Account can be closed after completion of 21 year of age . in case of marriage , payment is allowed after completion of 18 year.

SECTION 80CCC (investment in pension fund)

1. This deduction is allowed only to individual.
2. Maximum amount of deduction is 1,50,000.
3. Payment regarding annuity plan of any insurance company for receiving annuity or pension.

SECTION 80CCD (

1. This deduction is allowed only to individual.
2. Maximum amount of deduction is 1,00,000.
3. Deduction in respect of contribution to pension scheme of central govt.

SECTION 80CCE

Total deduction allowed under section 80C, 80CCC, 80CCD can not exceed RS. 1,00,000.

SECTION 80D

1. This deduction is allowed only to individual and HUF.
2. Payment regarding medical insurance premium for self, spouse, dependent parents, dependent children, or any member of HUF.
3. An assessee shall be allowed deduction of RS. 15,000 (20,000 for senior citizen)or amount paid whichever is less.
4. Deduction is allowed only if payment is made any mode other than cash.

SECTION 80DD

1. This deduction is allowed only to individual and HUF.
2. Payment regarding expenditure on medical treatment , or training or deposit in a scheme for receiving annuity or lump sum amount for the benefit of disabled dependent relative or member of HUF.
3. An assessee shall be allowed deduction of RS. 50,000 irrespective of actual amount deposit or spent. In case of disability more than 80% RS. 75,000 allowed as deduction.
4. For claiming deduction a certificate issued by medical authority should be furnished alongwith return.

SECTION 80U

1. This deduction is allowed to individual who is handicapped.
2. An assessee shall be allowed deduction of fixed RS. 50,000 irrespective of amount spent, RS. 75,000 in case of disability is more than 80%.
3. For claiming deduction a certificate by medical authority should be furnish along with return.

SECTION 80DDB

1. Individual and HUF are entitled for this deduction.
2. Payment regarding actually incurred any expenditure on medical treatment of specified disease of himself or depend relative or any member of HUF.
3. An assessee shall be allowed deduction of RS. 40,000 (RS. 60,000 for senior citizen)or amount spent whichever is less.
4. Deduction shall be reduced by the amount received from insurance co. or employer.
5. For claiming deduction a certificate by specified doctor should be attached with return.

SECTION 80E

1. This deduction is allowed only for individual.
2. Payment regarding interest on loan taken for higher education of himself or spouse or children.
3. Deduction is allowed to extent of interest paid in the previous year.
4. Deduction is allowed for maximum period of 8 year starting from year in which payment of interest on loan begains.

SECTION 80G

1. Deduction under this section allowed to all assessee whether company or non company.
2. Payment regarding donation in sum of money only not in kind allowed as deduction.
3. Proof of payment should be attached with return.
4. For deduction donations are classified into various types:-

A. Donation made to following are eligible for 100% deduction without any qualifying limit-

a. National defence fund set up by central govt.
b. Prime minister national relief fund.
c. Prime minister earthquake relief fund.
d. An approved university/educational institution of national eminence. Etc….

B. Donation made to the following are eligible for 50% deduction without any qualifying limit-
a. Jawaharlal Nehru memorial fund.
b. National children fund.
c. Prime minister drought relief fund.
d. Indira Gandhi memorial trust.
e. Rajiv Gandhi foundation.

C. Donation to the following are eligible for 100% deduction subject to qualifying limit
a. Donation to govt. or any approved local authority , institution or association to be utilised for promoting family planning.
b. Donation made by company to Indian Olympic association or to any other notified institution, for development of infrastructure for sports in india.

D. Donation to the following are eligible for 50% deduction subject to qualifying limit-
a. Donation to govt. or any approved local authority , institution or association utilised for any charitable purpose other than promoting family planning.
b. Any approved charitable institution which satisfy condition of section 80G.
c. To any authority for satisfying the needs of housing accommodation or any corporation for promoting interests of minority community.
d. Any notified temple , mosque, gurdwara , church or other place notified by central govt. to be historic, archaeological, or artist importance, for renovation or repair of such place.

For calculating qualifying limit all donation covered under (C) AND (D) above shall be aggregated and the aggregate amount shall be limited to 10% of Adjusted gross total income.

NOTE- Adjusted gross total income means GTI minus LTCG minus STCG minus other deduction under this chapter.

SECTION 80GG

1. This deduction is allowed to individual who is self-employed or if employed neither getting HRA nor RFA.
2. Assessee ,spouse, minor child or HUF do not own any residential accommodation in the city where he works.
3. Amount of deduction is least of following-

a. Rent paid less 10% of adjusted GTI

b. 25% of adjusted GTI
c. 2,000 p.m

SECTION 80QQB

1. Allowed to individual resident in India.
2. Deduction is allowed for income from assignment of copyright of any book.
3. Such book should be work of literary, artistic, or scientific nature and not text book of school guides or newspaper etc.
4. An assessee shall be allowed as deduction RS. 3,00,000 or actual royalty whichever is less.
5. In respect of royalty received from outside India only that royalty shall be considered which is brought into india in foreign exchange within 6 month from the end of P/Y or the extended time.

CLUBBING OF INCOME

Income from assets transferred to spouse

1. Where any assets other than house property is transferred by an individual to his/her spouse directly or indirectly than any income form such assets shall be the income of transferor.
2. However clubbing shall not be done if assets is sold for adequate consideration or transfer under an agreement to live apart or relationship of husband and wife does not exist either at time of transfer or at the time of accrual of income.

Income of minor child

1. All income that accrue to minor child will be included in the total income of that parent whose total income is greater (before including income of child).
2. If marriage of parents does not exist it shall be included in the income of that parents who maintains the child.
3. Where any such income is once included in the total income of either parents ,any such income of any succeeding year shall be included in the income of other parent only if AO is satisfied that child is being maintained by the other parent.
4. Income of minor child shall not be clubbed if child is suffering from any disability or income of child on account of manual work or activity involving skill, talent or specialised knowledge.
5. If income of child is so included , the parent shall be entitled to an exemption of maximum RS. 1,500 in respect of each minor child.

Income from assets transferred to daughter in law

1. If an individual transfer any assets to his daughter in law , without adequate consideration income from such assets will be include in the total income of transferor .

2. If transferred assets is invested in any business than following amount shall be included in the income of transferor :-

Income from self- acquired property converted into joint family property

1. If an individual, who is a member of HUF , convert his self- acquired property as property to the HUF than income derived by such property shall be included in the income of transferor .
2. If the converted property is subsequently transferred among the members of family the income derived from such converted property received by spouse of transferor will be included in the income of transferor.

Income transferred without transfer of assets

1. If a person transfer income to another person , without transfer of assets from which the income arises, then such income shall be taxable in the hand of transferor.

Revocable transfer of assets

1. If whole or part of income or assets can be re-transferred to transferor than such transfer is called revocable transfer.
2. If there is revocable transfer of any assets than income from such transfer shall be taxable in the hands of transfer.

Remuneration of spouse

1. An individual is chargeable to tax in respect of any salary , commission , fees or any other remuneration received by spouse from a concern in which the individual has substantial interest.
2. If husband and wife both has substantial interest in the concern and both are receiving remuneration from the concern than remuneration of both shall be clubbed in the hand of that spouse whose total income is greater, before clubbing the income.
3. Substantial interest means if an individual along with relative is entitled to at least 20% equity share or 20% profit.
4. Relative means husband ,wife, brother or sister of any lineal ascendant or descendant of individual

SET OFF, CARRY FORWARD AND SET OFF

Set off loss from one source against income from another source under same head of income

1. If there is loss under any source falling under any head of income , other than capital gain than assessee shall be entitled to set off such loss against income from any other source under same head.

2. If there is short term capital loss, the assessee shall be entitled to set off such loss against income of any other capital asset.
3. If there is a long term capital loss, the assessee shall be entitled to set off such loss against income from long term capital asset .

Set off loss from one head against income from another

1. If there is loss under any head of income , other than capital gain he shall be entitled to set off such loss against income for that assessment year under any other head.
2. If there is loss under the head PGBP and assessee has income under the head salary, than he shall not entitled to set off such loss against salary.
3. if there is loss under the head capital gain , assessee shall not set off such loss against income under other head.

Carry forward and set off of loss from house property

1. if there is loss under the head income from house property , such loss can not be set off against income from any other head as well as income from house property than such loss should be carried forward up to 8 assessment year and set off against income from house property only.

Carry forward and set off of business losses

1. if there is loss under the head PGBP but not being a loss of speculation business , and such loss cannot be setoff against income under the any head or same head in same assessment year than it should be carry forward and set off against income under same head in following eight assessment year.

Losses in speculation business

1. Any loss in respect of speculation business , shall not be set off except against profit of another speculation business.
2. If such loss cannot be set off in same assessment year than it should be carry forward and set off from profit of same head in following four assessment year.

Losses under the head capital gain

1. If there is loss under the head capital gain the loss shall be carried forward to the following assessment year and if loss relates to short term capital asset, it shall be set off against income under the head capital gain up to 8 assessment year.
2. If loss relate to long term capital asset it shall be set off against income from long term capital asset only up to 8 assessment year.

Losses from certain specified sources falling under the head income from other sources

1. In this case of an assessee, being the owner of horses maintained by him for running in horse race , the loss incurred in the activity of owning and maintaining race horse in any assessment year shall not be set off against

income from any sources other than activity of owning and maintaining race horse in the year and shall be carried forward to following assessment year and it shall be set off against the income from the activity of owning and maintaining race horse.

2. No such loss shall be carried forward for more than four assessment year.

Double Taxation Avoidance Agreement

For NRIs who are working in other countries, the Double Taxation Avoidance Agreement helps to avoid paying double taxes on income earned in both their country of residence and India. There are 80 countries which India has this agreement with.

What is Double Taxation Avoidance Agreement (DTAA)?

The DTAA, or Double Taxation Avoidance Agreement is a tax treaty signed between India and another country (or any two/multiple countries) so that taxpayers can avoid paying double taxes on their income earned from the source country as well as the residence country. At present, India has double tax avoidance treaties with more than 80 countries around the world. The need for DTAA arises out of the imbalance in tax collection on global income of individuals. If a person aims to do business in a foreign country, he/she may end up paying income taxes in both cases, i.e. the country where the income is earned and the country where the individual holds his/her citizenship or residence. For instance, if you are moving to a different country from India while leaving income sources such as interest from deposits in here, you will be charged interest by both India and the country of your current residence as per your consolidated global earnings. Such a scenario can have you pay twice the tax over the same income. This is where the DTAA becomes useful for taxpayers.

Benefits of DTAA:

There are lots of benefits associated with DTAA for taxpayers. The basic benefit includes not having to pay double taxes on the same income. Apart from this,

- Lower Withholding Tax (Tax Deduction at Source or TDS)
- Tax credits
- Exemption from taxes

The primary idea behind DTAA agreements with various countries is to minimize the opportunity for tax evasion for tax payers in either or both of the countries between which the bilateral/multilateral DTAA agreement have been signed. Lower withholding tax is a plus for taxpayers as they can pay lower TDS on their interest, royalty or dividend incomes in India, while some agreements provide for tax credits in the source or country of operations so that taxpayers don't pay the same tax twice. In some cases, such as agreements with Mauritius, Cyprus, Singapore, Egypt etc. capital gains tax is exempted which can be a boon to taxpayers as they

INCOME TAX RETURN

Income Tax Return is the form in which assesses files information about his Income and tax thereon to Income Tax Department. Various forms are ITR 1, ITR 2, ITR 3, ITR 4, ITR 5, ITR 6 and ITR 7. When you file a belated return, you are not allowed to carry forward certain losses.

These returns should be filed before the specified due date. Every Income Tax Return Form is applicable to a certain section of the Assesses. Only those Forms which are filed by the eligible Assesses are processed by the Income Tax Department of India. It is therefore imperative to know which particular form is appropriate in each case. Income Tax Return Forms vary depending on the criteria of the source of income of the Assesses and the category of the Assesses.

Advance tax

Advance tax is also known as pay as you earn tax as it can be deposited from time to time with the income tax department in advance as opposed to the lump sum amount. The **advance tax** is to be paid as per the due dates mentioned by the income tax department in the form of installments. Under this schemes, every assesses is required to pay tax in a particular financial year, preceding the assessment year, on an estimated basis. However, if such estimated tax liability for an individual who is not above 60 years of age at any point of time during the previous year and does not conduct any business in the previous year, and the estimated tax liability is below ₹ 10,000, advance tax will not be payable.

Until FY 2015-16, the due dates and amount of advance tax were different for corporate taxpayers and individual taxpayers. However, from FY 2016-17, both categories of taxpayers were brought at par. Further, individuals opting presumptive scheme of taxation u/s 44AD, 44ADA are liable to pay advance tax in single installment. The due dates of payment of advance tax for F.Y 17-18 are:-

	In case of corporate assesses as well as Individuals	**For Persons opting sec 44AD & 44ADA**
On or before 15 June of the previous year	Up to 15% of advance tax payable	-

On or before 15 September of the previous year	Up to 45% of balance of advance tax payable	-
On or before 15 December of the previous year	Up to 75% of balance of advance tax payable	-
On or before 15 March of the previous year	Up to 100% of balance of advance tax payable	Up to 100% of the advance tax payable

Any default in payment of advance tax attracts interest under section 234B and any deferment of advance tax attracts interest under section 234C.

PRODUCTION & OPERATION MANAGEMENT (303)

INTRODUCTION TO INCOME TAX ACT 1961

Income tax is direct tax which is imposed upon income of the person. It is major source of income of central Government. Income tax is computed on accrued or received net taxable income by person during a previous year according to prescribed rate of income tax in current assessment year.

PREVIOUS YEAR- (sec.3) A previous year is that year in which income is earned and received. Previous year may be prior to assessment year and it may be for 12 month or less than 12 month. For ex.- previous year for assessment year 2018-19 is 2017-18.

In case of newly established business first previous year start from the day of setting of the business and end on 31st march of next year.

In case of undisclosed income, year in which the income arised will be previous year. If such year is not known , year in which such income comes to knowledge of IT department will be the previous year.

ASSESSMENT YEAR- sec. 2(9) current financial year is called assessment year, it start from 1st of April and end to 31st of March next year. Tax of any person is computed in assessment year for income earned in previous year. It means in assessment 2017-18 tax is computed for income earned in previous year 2016-17.

PERSON- sec. 2(31) According to income tax act 1961 person includes following-

8. individual
9. Hindu Undivided Family (HUF)
10. Company
11. firm
12. An association of person / Body of individual
13. Local Authority
14. Any artificial juridical person

ASSESSEE - sec.2(7) According to income tax act 1961, the following are included in term of Assessee

5. The person who is liable to pay tax
6. The person who is liable to pay penalty and interest along with tax.
7. The person upon whom the proceeding of assessment is started.
8. Deemed Assessee.

GROSS TOTAL INCOME- Gross total income of an assessee means the total income before deductions under sec. 80C TO 80U. if assessee has taxable income under only one head, then only that income under one head will be treated as GROSS TOTAL INCOME. GTI includes-

6. Income from salary
7. Income from House property
8. Income from business or profession
9. Income from capital gain
10. Income from other sources

TOTAL INCOME - the income which come after deducting deduction under sec. 80C TO 80U, is called TOTAL INCOME. It is also known as NET TAXABLE INCOME and income tax computed on this income.

INCOME IN WHICH TAX TO BE PAID IN SAME ASSESMENT YEAR IN WHICH IT EARNED-

6. Income from shipping business of non resident (SEC. 173)
7. Income of person leaving India.(SEC. 174)
8. AOP & BOI formed for a particular event or purpose .(SEC. 174A)
9. Income of person from transfer of property to avoid tax.(SEC.175)
10. Income of discontinued business.(SEC.176)

AGRICULTURE INCOME- sec. 2(1A)- following income covered under agriculture income –

4. Rent or revenue derived from land used for agriculture purpose, and land must situated in India.
5. Any income derived from cultivator or receiver of rent in kind of employing.
6. Income arised from farm building .

NON –AGRICULTURE INCOME – following income regarded as non agriculture income

6. Income from land used for properties or as bricks fields
7. Income from land used as stone quarries.
8. Income from fisheries
9. Income from water supply for irrigation purpose
10. Income from land let for storing crops or timber.

PARTLY AGRICULTURE AND PARTLY NON AGRICULTURE INCOME-

If an income comprises of both agriculture and non-agriculture income in such a case it become necessary on the part of assesse to segregate the income into two components – agriculture income and non- agriculture income.

Q. from the following information compute agriculture income and business income –

Sale of sugar- -24,00,000. Manufacturing exp. including depreciation – 6,00,000, cost of sugarcane – 5,00,000, market value of sugarcane- 15,00,000 , cultivation exp. 4,20,000.

TAX TREATMENT OF AGRICULTURE INCOME-

Agriculture income is exempt from tax but it shall be included in the total income in case of certain assesse for the purpose of determining the rate of tax on the non- agriculture income. This is also known as integration of agriculture income with non-agriculture income or the indirect way the taxing the agriculture income.

Integration of agriculture income with non-agriculture income shall be done in case of individual, HUF, AOP, BOI &artificial juridical person, it shall not be done in case of firm, company, co-operative society and local authority .

Integration of agriculture income with non-agriculture shall be done in the following 2 cases only-

3. Net agriculture income exceeds the maximum amount not charged to tax
4. Net agriculture income exceeds 5000 p.a

STEPS TO CALCULATE TAX-

4. Add net agriculture and non-agriculture income and calculate tax on it.
5. Add net agriculture income with maximum amount that is not chargeable to tax and calculate tax on it.
6. Deduct tax calculate in step no.2 from step no. 1 (tax on step 1- tax on step 2)

PARTLY AGRICULTURE INCOME AND PARTLY BUSINESS INCOME-

Types of income	Agriculture income	Business income
Income from growing and manufacturing tea India	60%	40%
Income from growing ,curing of coffee in India	75%	25%
Income from growing , curing,roasting, coffee in India	60%	40%
Income from growing and manufacturing of rubber in India	65%	35%

RESIDTENIAL STATUS OF AN INDIVIDUAL-

An individual is said to be resident in India if he satisfied any one of the basic condition-

3. He should be in India for 182 days or more during previous year.
4. He should be in India for 60 days or more in previous year and 365 days in preceeding four previous year. However in the following cases only first condition should be satisfied.
3. A person of Indian origin who visit India during previous year.
4. A person leave India for employment purpose and crew members.

If a person is resident in India than either he is resident and ordinary resident or resident but not ordinary resident, its depend upon additional conditions.

If he satisfied both additional condition than he is said to be resident and ordinary resident otherwise resident but not ordinary resident.

ADDITIONAL CONDITION

3. He should be resident in 2 year out of 10 previous year.
4. He should be 730 days in India during 7 year preceeding the previous year.

INCIDENCE OF TAX AS PER RESIDENTIAL STATUS

Types of income	ROR	NOR	NR
Income received or deemed to be received in India whether earned in India or outside India.	YES	YES	YES
Income earn in India whether received outside India.	YES	YES	YES
Income earned outside India ,received outside India but business controlled from India.	YES	YES	NO
Income earned outside India , received outside India but bring India during previous year from any other sources.	YES	NO	NO
Past untaxed income brought to India	NO	NO	NO

INCOME UNDER THE HEAD SALARY (UNIT 2)

Basis of charge (sec. 15)

7. Income under the head salary is taxable only if there is employer-employee relationship.
8. Salary is taxable on receipt or due basis whichever is earlier.

9. Arrear of salary, not charged to tax in an earlier previous year, are taxable in the previous year in which it is paid.
10. If any salary paid in advance is included in the total income of previous year, it shall not be included again in the total income when salary become due.
11. Any salary, bonus etc. by whatever name is called received by a partner from the firm shall not be regarded as salary.
12. Advance salary is taxable ,but advance against salary is not taxable(loan from employer)

Grade system-

Q. compute taxable salary for A/Y 16-17.

1. 10.000-2,000-14,000-3,000-20,000 he was appointed from 1-7-13.

Parts of salary- basically salary divided into following parts

4. Allowances
5. Perquisites
6. Retirement benefit**.**

Allowances- monetary benefit given by employer to employee is called allowance.it is divided into different types.

6. **Following allowance are exempt to the extent of amount received or amount spent whichever is less:-**

g. Travelling allowance
h. Daily allowance
i. Conveyance allowance
j. Helper allowance
k. Academic allowance
l. Uniform allowance

7. **Following allowance are exempt to the extent of amount received orlimit specified whichever is less:-**

i. Children education allowance- Rs. 100 p.m per child up to 2 child.
j. Hostel expenditure allowance- Rs. 300 p.m per child up to 2 child.
k. Transport allowance- (Rs. 3200p.m for blind and handicapped).
l. Allowance to transport employee- 70% of allowance or 6000 p.m whichever is less.
m. Tribal area allowance- Rs. 200 p.m.
n. Underground allowance- Rs. 800 p.m.
o. Border area allowance- 200 to 1300 p.m

p. Hill compensatory allowance- 300 p.m to 7,000 p.m

8. Following allowance are fully taxable :-

i. Dearness allowance
j. City compensatory allowance
k. Medical allowance
l. Family allowance
m. Non practicing allowance
n. Warden allowance
o. Telephone allowance
p. Lunch allowance

9. Allowance exempt for certain person only-

e. Citizen of India who is gov. employee rendering service outside India. Any allowance received outside India is fully exempt.
f. All allowance received by judge of high court and supreme court.
g. Allowance received by employee of UNO.
h. Daily AND constituency allowance received by MPs and MLAs exempt.

10. House rent allowance- least of following is exempt-

d. Actual amount received
e. Rent paid less 10% of salary.
f. 50% of salary for metro city and 40% for other city.

Note – salary means, basic salary plus D.A plus commissions

PERQUISITES

Non- monetary benefit given by employer to employee is called perquisites. There are following types of perquisites-

Rent free accommodation:-

3. For govt. employee- it is decided as per gov. rule, generally it is exempt.

4. For other employee-

d. Accommodation is owned by employer- in this case taxability is depend upon population of the city, if population of city is more than *25 lakhs than 15% of salary* is taxable and for more than *10 lakhs butup to 25 lakhs 10% of salary* and if population is less than *10 lakhs7.5% of salary is taxable.*
e. Accommodation is not owned by employer- in this case *15% of salaryor actual rent paid* by employer *whichever is less* taxable.
f. Accommodation is provided in hotel- *24% of salary or actual charge* paid by employer whichever is less taxable. However nothing shall be taxable if accommodation is provided for not more than 15 days and on transfer of employee from one place to another.

Notes: –

6. Salary means- basic salary plus D.A plus bonus plus commission plus all taxable allowance.
7. If furniture is also provided with house then 10% of cost of furniture or actual hire charges if taken on rent, shall be added with taxable amount of RFA.
8. In case of transfer of employee from one place to another place, employee is provided house at new place as well as retain house at old place than for first 90 days one house with lower value is taxable but after 90 days both house is taxable.
9. If RFA is provided in remote area or mining sites or onshore oil exploration site then nothing shall be taxable.
10. If any amount is recovered from employee in behalf of RFA than such amount should be deducted from total taxable amount of RFA.

Value of interest free loan:-

If any interest free loan or loan at concessional rate is provided from employer to employee than ,value of benefit derived from such loan is taxable in hand of employee. For calculation of benefit rate of interest charged by SBI in previous is taken.

However nothing shall be taxable if amount of loan do not exceed Rs. 20,000 or loan is provided for treatment of specified diseases.

Use and transfer of movable assets:-

If any movable assets is provided by employer to employee for use than 10% p.a of the actual cost or hire charges is taxable in hand of employee.

If an asset is transferred to employee than any benefit from such transfer is also taxable in hand of employee. For calculation of such benefit following depreciation is taken-

d. Computer & electronic item- 50% on basis of WDV.

e. Motor cars - 20% on basis of WDV.

f. Any other assets - 10% on basis of SLM.

Other benefits:-

e. Sweeper, watchman, gardener or personal attendant- in all cases actual cost to employer is taxable in hand of employee.

f. Gas ,electricity or water- manufacturing cost per unit or amount paid to outside agency, shall be taxable

g. Free education facility- it is taxable if amount of benefit is exceed Rs. 1000 per child p.m for two child.

h. Credit card bill- if card is used by employee or his family for personal purpose and bill paid or reimbursed by employer than it is taxable in hand of employee. However nothing shall be taxable if it is used exclusively for official purpose.

VALUATION OF MOTOR CAR

S.NO.	Situation	Exp. paid by	Purpose for which car is used	Taxable value
1	Car owned or hired by employer	Employer	official	Nil
2	Car owned by employer	Employer	Personal	Fuel and maintainance+driversalary+depreciation @10%
3	Car owned or hired by employer	Employer	Partly official and partial private	Car up to 1.6 lit. engine capacity -1800 p.m and for above 1.6 lit. – 2400 p.m+ diver salary 900 p.m
4	Car	Employee	Partly	Car up to 1.6 lit.- 600 p.m and above

	owned or hired by employer		official and partial private	1.6 lit. 900 p.m + driver 900 p.m
5	Car is owned by employee	employer	official	Nil
6	Car is owned by employer	Employee	personal	Nil
7	Car is owned by employee	Employer	Partly official and partial private	Car up to 1.6 lit.- 1800 p.m and above 1.6 lit. 2400 p.m + driver 900 p.m

Medical perquisites:-

5. Expenditure incurred or reimbursed on any medical treatment provided to an employee or any member of his family is fully exempt without limit, for treatment in any hospital, dispensary maintained by employer, gov. ,local authority or approved by gov. for treatment of specified disease.
6. Health insurance premium reimbursed or paid on behalf of employee or any member of his family is fully exempt.
7. Reimbursement by employer of any amount actually spent by employee for obtaining his or any member of his family treatment in any hospital other than point 1, is taxable if amount is more than Rs. 15,000.
8. If employer provided treatment in any other country than medical expenses ,expenses on stay and travel expenses with one attendant is fully exempt subject to permitted by **RBI.**

Leave travel concession:- Any concession received by employee for himself or his family for travelling to any place in India is exempt, to the extent amount spent, subject to following condition-

4. Exemption can be claimed for two journey in a block of four year i.e 2002-05,2006-09,2010-13 and so on.
5. Exemption is available for two children but exemption will be available for all the children borne before October 1, 1998.

6. **Amount of exemption-**

d. If journey is performed by air than economy class fair with shortest route.
e. In case of rail then first class rail fare by shortest route.
f. In case of bus, first class deluxe bus fare of recognised public transport.

RETIREMENT BENEFIT

Pension:-

For taxability point of view pension divided in two types-

3. Uncommuted pension- it is taxable for all employee as salary.
4. Commuted pension- it is taxable as under-

c. For gov. employee - fully exempt.
d. For non-gov. employee - *one third of commuted value* if he received gratuity but *one half of commuted value* if he not received gratuity.

Gratuity:-

4. For gov. employee- fully exempt.
5. For non-gov. employee, covered under payment of gratuity act-

Least of the following amount is exempt

d. 15/26 days salary of every completed year of service or part thereof in excess of 6 month.
e. 20,000,00
f. Amount received.

NOTE- salary means last drawn basic salary plus D.A.

6. For non gov. employee not covered under payment of gratuity act1972.

Least of the following is exempt

d. 15/30 days salary for every completed year of service
e. 20,000,00
f. Amount received

NOTE- salary means average salary of last 10 months preceding the month of retirement.

Compensation on voluntary retirement:-

Least of the following is exempt

c. Amount received
d. 5,00,000.

Condition for claiming VRS:-

3. Exemption shall be allowed only to employee of central/state govt. public sector undertaking, any other statutory corporation, local authority, university, IIT OR notified institute for management.
4. Exemption shall be allowed only if compensation does not exceed three month salary for each completed year of service or salary of balance month of service left before his normal retirement.

LEAVE SALARY-

3. Leave encashment during continuation of service is fully taxable for all employee
4. Encashment of leave after retirement – for gov. employee fully exempt . and for other employee least of the following amount is exempt –

e. Actual amount received.
f. Maximum amount 3,00,000
g. 10 month average salary for preceding the month of retirement
h. Cash equivalent of unavail leave (unavailed leave should be calculated on the basis of 30 days leave in one year)

Provident fund:-

It is basically retirement benefit scheme . under the scheme employee contribute part of his/her salary and employer contribute fixed amount 10 to 12 % of salary to employee. There are following types of provident fund.

5. Statutory provident fund (SPF)
6. Recognized provident fund (RPF)
7. Unrecognized provident fund (URPF)
8. Public provident fund (PPF)

PROVISION REGARDING SPF-

This scheme is applicable for gov, semi gov. and local authority and universities employees. Any interest earned on contribution of employee and employer is fully exempt . contribution by employer is fully exempt. Contribution of employee is eligible for deduction under section 80 C.

PROVISION REGARDING RPF-

A provident scheme in which the employee provident fund and miscellaneous provision act,1952 applies is recognised provident fund. Contribution of employer is exempt up to 12% of salary and interest cr. In RPF exempt up to 9.5 % p.a. exemption u/s 80C available for employee contribution.

PROVISION REGARDING URPF-

Contribution made by employer is exempt from tax, int. cr. To the fund is also exempt at the time of credit but no exemption on employee contribution available u/s 80C. on retirement payment received which represent employee own contribution is exempt. Int. received on employee contribution is taxable under income from other sources and balance (employer contribution and int.) is taxable under the head salary.

PROVISION REGARDING PPF-

Central gov. has established the PPF for the benefit of general public to mobiles personal saving. Any member of public (whether salaried , self employed) can contribute towards PPF. Minimum contribution is 500 and maximum contribution is 1,00,000 p.a . lock in period is 15 year or more

Deductions(sec.16)

3. Professional tax- any amount paid by employee shall be allowed as deduction in the year of payment.
4. Entertainment allowance- at first this is taxable for all employee but govt. employee can claim deduction under this section which is least of the following-

d. Amount received
e. 20% of salary
f. 5000

INCOME FROM HOUSE PROPERTY

BASIS OF CHARGE(SEC.22)

6. Annual value of building and land appurtenant thereto is taxable under this head.
7. If building is occupied by assesse for his own business or profession then nothing shall be taxable.
8. Income under this head is taxable only if assesse is owner of the building.
9. Even if letting out is business of assesse, still rental income of building is taxable under head house property only.
10. However rental income is not taxable if building is letout to carry on business and in case of composite rent, if it is not separable.

DEEMED OWNER(SEC. 27)

7. In the case of transfer to spouse or minor child(not being a minor married daughter),without adequate consideration ,transferor shall be deemed owner.
8. Holder of impartiable estate is deemed as owner.

9. In case of allotment or lease ,the person to whom building has been allotted shall be deemed as owner.
10. The person who acquired house without registration .
11. The lessee of building in case building is leased out for not less than 12 year is deemed as owner.
12. In case of disputed ownership income shall be taxable in hand of recipient

METHOD OF COMPUTATION

Gross annual value --------------------------------

Less-municipal tax paid by owner----------------------------

Annual value (net annual value)------------------------------

Less- Deduction u/s 24-------------------------------

DEDUCTIONS (SEC.24)

3. Standard deduction- 30% of net annual value. if NAV is nil than std. deduction shall be nil.
4. Interest on borrowed capital-this deduction has two parts in the first part previous year int. is deductible and in the second part one fifth of int. on pre-construction period is deductible.

INTEREST ON LOAN FOR SELF OCCUPIED HOUSE

3. In respect of such property, int. on capital borrowed for purchase, construction, repair, renewal or reconstruction is deductible up to Rs.30, 000. however if loan is taken on or after 1-04-1999 and property is acquired and constructed within five year from end of financial year in which capital was borrowed, the total deduction of interest shall not exceed Rs. 2,00,000.
4. Deduction of Rs. 2, 00,000 shall be allowed only if assesses furnishes a certificate, from the person to whom any int. is payable on capital borrowed.

ANNUAL VALUE (SEC. 23)

CASE 1-building is let out throughout the previous year

Gross annual value of such property is expected rent or actual rent whicheveris higher. Expected rent is municipal value or fair rent whichever is higher but it cannot exceed standard rent.

CASE 2-self occupied building and building which could not occupied due to employment.

Annual value of such property is nil.

CASE 3- Deemed to be le out property

In case there is more than one house property is self occupied than except one house remaining shall be deemed to be let out at the option of assesse.

CASE 4- property which is let out but remained vacant during the whole or part of the previous year.

In this case actual rent is taken as GAV. If in the vacancy period property is self occupied than normal rule is applied for determining GAV.

UNREALISED RENT

4. If due to any reason assesse couldnot realise rent in previous year such rent is called unrealised rent.
5. Such unrealised rent should be deducted from actual rent or GAV determined.
6. If assesse recover unrealised portion of rent than it is treated as income of assesse of that previous year in which rent is realised, whether or not assesse is owner of property in that assessment year.

CAPITAL GAINS (UNIT 2)

Basis of charge (sec. 45(1))

4. Any profit or gains arising from the transfer of a capital assets, shall be chargeable to income tax under the head capital gain.
5. It shall be deemed to be the income of p/y in which transfer took place.
6. Capital gain is exempt if it is covered u/s 54, 54 B, 54D, etc.

Capital assets (sec. 2(14))

2. It means property of any kind held by assessee whether or not connected with his business or profession.

However it does not include:-

e. Stock in trade
f. Personal effects (movable property held for personal use by assessee or any member of his family but it does not include jewellery, Archaeological collections, drawing, painting ,or any work of art.)
g. Agriculture land in India not situated in urban area.
h. Gold deposit bonds issued under gold deposit scheme 1999.

Types of capital assets

There are two types of capital assets:-

3. Short term capital assets.
4. Long term capital assets.

Short term capital assets

3. A capital assets held by assessee for not more than 36 months immediately preceding the Date of transfer.
4. However in the following cases ,if period of holding is not more than 12 months immediately preceding the date of transfer, than it shall be treated as short term capital assets-

e. Share held in a co.
f. Any security listed on recognised stock exchange.
g. Unit of UTI/Mutual fund.
h. Zero coupon bond.

Long term capital assets

A capital assets which is not a short term capital assets is called long term capital assets.

Transfer

Transfer in relation to capital assets includes:-

7. Sale ,exchange or to give up or surrender of assets
8. Extinguishment of any right therein
9. Compulsory acquisition thereof under any law.
10. In case where the assets is converted into stock in trade of a business, such conversion.
11. Allowing the possession of any immovable property under transfer of property act 1882.
12. Allotment or lease under a housing building scheme of society, co. or other association.

Method of computation of capital gains

Sale consideration received/ accrued on transfer-

Less: cost of acquisition.

Less: cost of improvement.

Less: expenditure incurred wholly and exclusively in connection with transfer.

Cost of acquisition

5. It means amount which assessee has paid or incurred at the time of acquisition of assets.
6. In relation to goodwill ,tenancy right, route permit, loom hours, right to carry on business, patents, copyright or trade mark, the amount of purchase price in considered as COA. In case of self- generated , COA is nil.
7. Cost of acquisition of assets acquired before 1/4/81 is actual cost of owner or fair market value on 1/4/81 is to be taken at the option of assessee.
8. In case of LTCG, index COA is to be computed with following formula-

Cost of improvement

4. All expenditure of capital nature incurred on improvement of assets shall be treated as COI.
5. COI incurred before 1/4/81 shall be ignored in all cases.
6. In case of LTCG, index COI is to be computed with following formulA

Exemption of capital gain

Sec. 54

6. Individual and HUF are entitled to take exemption under this section.
7. If one residential house is transferred and other residential house is purchase within two year or completed construction within 3 year than capital gain invested is exempt from tax.

8. If unutilised amount is deposit in a capital gain A/C scheme up to date of furnishing return of income than such amount is also exempted.
9. Holding period of assets transferred should be minimum 3 year/1 year.
10. If new assets purchase by assessee is sold within 3 year from date of purchase/constructed than capital gain claim as exempt shall be reduced from COA of new assets.

Sec. 54B

6. Only individual can claim exemption under this section.
7. If one agriculture land is transferred and other agriculture land is purchase within two year from date of transfer than capital gain invested is exempt from tax.
8. Same as sec. 54
9. Holding period of assets transferred is 2 year or more.
10. Same as section 54.

Sec. 54D

6. All assessee is entitled to claim exemption under this section.
7. If land and building for industrial undertaking is transferred and other land and building for industrial undertaking is purchased within 3 year from such transfer than capital gain invested is exempt from tax.
8. Same as sec. 54
9. Same as sec. 54B.
10. Same as sec. 54.

Sec. 54EC

6. Same as 54D
7. Ay any assets transferred and long term specified assets (bonds of NHAI,RECI) is purchased within 6 month from date of such transfer than capital gain invested is exempt from tax.
8. Not applicable.
9. Same as sec. 54
10. If sold within 3 year of acquisition , exempted capital gain taxable as LTCG in the year of transfer of new assets.

Sec. 54F

6. Same as sec. 54.
7. If any assets other than residential house is transferred and residential house is purchase within 2 year or constructed within 3 year from date of transfer than proportionate net consideration invested is exempt from tax.
8. Same as sec. 54
9. Same as sec. 54

10. If sold within 3 year from date of purchase/construction ,capital gain exempted shall be taxable as LTCG in the year of transfer

INCOME FROM OTHER SOURCES

Basis of charge sec.56(1)

A sources of income which does not specifically fall under any one of the other four heads of income is to be computed under the head income from other sources.

Specific income sec.56(2)

7. Dividends.
8. Winnings from lotteries, crossword puzzle, races, card game, gambling or betting of any form.
9. Income from letting of furniture, machinery, plant, etc.
10. Interest on securities.
11. Sum received under keyman insurance policy including bonus.
12. Where any sum of money, the aggregate value of which exceeds 50,000. Received without consideration by any individual or HUF the whole of such sum is taxable.

    Provided shall be taxable in case of gift received from any relative, or on the occasion of marriage of individual ,or under a will or by way of inheritance or from any local authority, trust,university.

NOTE- relative means:-

6. Spouse of individual
7. Brother or sister of individual
8. Brother or sister of the spouse of the individual
9. Brother or sister of either of parents of the individual.
10. Any lineal ascendant or decendant of individual.

Taxability of dividend

4. Any amount declared, distributed or paid by a domestic company by way of dividends is exempt from tax in hand of employee, because company who declared or paid dividends pay corporate dividend tax which is currently 16.2225% (15% plus surcharge @5% plus 2% education cess and @1% secondary and higher education cess.).
5. Dividend from foreign co. is taxable in hand of assesse.
6. Dividend declared or paid by UTI and mutual fund unit is also exempt.

Taxability of lotteries, puzzle game, horse race, card game

5. Any winning amount from lotteries, game, horse race is taxable in the hand of assesse with flat rate which is 30% plus education cess @ 2% and SHEC @ 1%.
6. No deduction is allowed in respect of any expenditure incurred in connection to winning such amount.
7. In case of horse race , expenses relating to activity of owning and maintaining race horse is allowed for deduction.
8. If net income (gross income minus TDS) is given in question than for computation of tax it should be GROSSING UP by use of following formula:-

Taxability of interest income

5. Income, by way of interest on securities, is chargeable under the head income from other sources if it is not chargeable under the head PGBP.
6. Interest is taxable on receipts basis if assesse follow cash basis accounting system and on due basis if no accounting system is followed.
7. In case of govt. securities there is no need for grossing up of income because it is exempt.
8. In case of interest on other securities , if NET amount is given than it should be grossed up for computation of tax

   NOTE:-

6. Rate of TDS in case of saving bond is 10%.
7. Rate of TDS for non gov. securities whether listed or not is 10%.
8. In case of saving bond if interest income is more than 10,000 than TDS is deducted.
9. An case of interest on debenture ,no tax is deductible if amount of interest is less than Rs. 2500.
10. Collection charges, interest on loan, any other expenditure not being capital nature is allowed as deduction from interest income.

Taxability of income from letting of machinery , furniture, plant etc.

3. If any income earn from letting of machinery, furniture, plant and it nor chargeable under the head PGBP than it is chargeable under the head income from other sources.
4. Following expenses are allowed for deduction:-

d. Repair and insurance of machinery, plant , furniture.
e. Depreciation based on block of assets.
f. Any other expenditure which is exclusively for earning such income and not in capital nature.

Taxability of gift from unrelated person

5. Where any sum of money received by assesse which is more than 50,000 Rs. Without consideration than whole of the aggregate value is taxable in hand of recipient.
6. Where any immovable property is received by assesse without consideration which stamp duty value is exceeds RS. 50,000,THE stamp duty value of such property is taxable in hand of recipient.
7. Where any movable property is received by assesse without consideration which fair market value exceeds RS. 50,000, the whole of aggregate fair market value of such property shall be taxable.
8. Where any movable property acquired for a consideration which is less than fair market value of such property than amount exceeding RS. 50,000 the aggregate fair market value of such property as exceeds such consideration shall be taxable in the hand of recipient.

NOTE:-

6. After death of employee , if pension received by his legal heir such pension is called family pension. Family pension is considered as income of person who receive such pension and taxable under income from other sources.
7. Deduction is allowed in case of family pension which is 33.33% of pension or 15,000RS. Whichever is less.
8. Interest on post office saving bank account is exempt up to 3500 RS. For individual account and 7000 RS. For joint account.
9. Interest paid outside india on which TDS is not deducted is not allowed for deduction.
10. Interest paid on amounts borrowed for meeting tax liability is not deductible.

EDUCTIONS

SECTION 80C

4. This deduction is available only to individual and HUF.
5. Maximum amount of deduction under this section is 1,50,000.
6. On the following amounts deduction is allowed:-

l. Life insurance premium on life of himself, spouse, and children, in HUF any member of family. Premium paid in excess of 10% of the capital sum assured shall not allowed for deduction.

m. Contribution by employee towards SPF and RPF.

n. Contribution by any person to public provident fund (PPF)

o. Subscription to national saving certificate (NSC) & national saving scheme (NSS).
p. Contribution in any unique link investment plan (ULIP).
q. Amount invested in deposit scheme of a public company engaged in infrastructure facility or approved mutual fund.
r. Repayment of loan taken from central/state govt./any other bank/LIC/National housing bank, employer where employer is statutory corporation or, public co. or university, or college or local authority or co-operative society, for purchase or construction of a residential house property.
s. Tuition fees at the time of admission or thereafter for full time education for any two children of such individual to any university, college, school or other educational institution situated in india.
t. Fixed deposit with scheduled bank for not less than five year.
u. Subscription to notified bond of NABARD (National agriculture bank of rural development)
v. Investment in sukanyasamridhi account and amount can be invested by an individual as guardian in the name of girl child who is of the age of 10 year or less. Interest received is exempt. Amount received in maturity is also exempt. Account can be closed after completion of 21 year of age . in case of marriage , payment is allowed after completion of 18 year.

SECTION 80CCC (investment in pension fund)

4. This deduction is allowed only to individual.
5. Maximum amount of deduction is 1,50,000.
6. Payment regarding annuity plan of any insurance company for receiving annuity or pension.

SECTION 80CCD (

4. This deduction is allowed only to individual.
5. Maximum amount of deduction is 1,00,000.
6. Deduction in respect of contribution to pension scheme of central govt.

SECTION 80CCE

Total deduction allowed under section 80C, 80CCC, 80CCD can not exceed RS. 1,00,000.

SECTION 80D

5. This deduction is allowed only to individual and HUF.
6. Payment regarding medical insurance premium for self, spouse, dependent parents, dependent children, or any member of HUF.
7. An assessee shall be allowed deduction of RS. 15,000 (20,000 for senior citizen)or amount paid whichever is less.
8. Deduction is allowed only if payment is made any mode other than cash.

SECTION 80DD

5. This deduction is allowed only to individual and HUF.
6. Payment regarding expenditure on medical treatment , or training or deposit in a scheme for receiving annuity or lump sum amount for the benefit of disabled dependent relative or member of HUF.
7. An assessee shall be allowed deduction of RS. 50,000 irrespective of actual amount deposit or spent. In case of disability more than 80% RS. 75,000 allowed as deduction.
8. For claiming deduction a certificate issued by medical authority should be furnished alongwith return.

SECTION 80U

4. This deduction is allowed to individual who is handicapped.
5. An assessee shall be allowed deduction of fixed RS. 50,000 irrespective of amount spent, RS. 75,000 in case of disability is more than 80%.
6. For claiming deduction a certificate by medical authority should be furnish along with return.

SECTION 80DDB

6. Individual and HUF are entitled for this deduction.
7. Payment regarding actually incurred any expenditure on medical treatment of specified disease of himself or depend relative or any member of HUF.
8. An assessee shall be allowed deduction of RS. 40,000 (RS. 60,000 for senior citizen)or amount spent whichever is less.
9. Deduction shall be reduced by the amount received from insurance co. or employer.
10. For claiming deduction a certificate by specified doctor should be attached with return.

SECTION 80E

5. This deduction is allowed only for individual.
6. Payment regarding interest on loan taken for higher education of himself or spouse or children.
7. Deduction is allowed to extent of interest paid in the previous year.
8. Deduction is allowed for maximum period of 8 year starting from year in which payment of interest on loan begains.

SECTION 80G

5. Deduction under this section allowed to all assessee whether company or non company.
6. Payment regarding donation in sum of money only not in kind allowed as deduction.
7. Proof of payment should be attached with return.
8. For deduction donations are classified into various types:-

E. Donation made to following are eligible for 100% deduction without any qualifying limit-

e. National defence fund set up by central govt.

f. Prime minister national relief fund.

g. Prime minister earthquake relief fund.

h. An approved university/educational institution of national eminence. Etc….

F. Donation made to the following are eligible for 50% deduction without any qualifying limit-

f. Jawaharlal Nehru memorial fund.

g. National children fund.

h. Prime minister drought relief fund.

i. Indira Gandhi memorial trust.

j. Rajiv Gandhi foundation.

G. Donation to the following are eligible for 100% deduction subject to qualifying limit

c. Donation to govt. or any approved local authority , institution or association to be utilised for promoting family planning.

d. Donation made by company to Indian Olympic association or to any other notified institution, for development of infrastructure for sports in india.

H. Donation to the following are eligible for 50% deduction subject to qualifying limit-

e. Donation to govt. or any approved local authority , institution or association utilised for any charitable purpose other than promoting family planning.

f. Any approved charitable institution which satisfy condition of section 80G.

g. To any authority for satisfying the needs of housing accommodation or any corporation for promoting interests of minority community.

h. Any notified temple , mosque, gurdwara , church or other place notified by central govt. to be historic, archaeological, or artist importance, for renovation or repair of such place.

For calculating qualifying limit all donation covered under (C) AND (D) above shall be aggregated and the aggregate amount shall be limited to 10% of Adjusted gross total income.

NOTE- Adjusted gross total income means GTI minus LTCG minus STCG minus other deduction under this chapter.

SECTION 80GG

4. This deduction is allowed to individual who is self-employed or if employed neither getting HRA nor RFA.

5. Assessee ,spouse, minor child or HUF do not own any residential accommodation in the city where he works.

6. Amount of deduction is least of following-

d. Rent paid less 10% of adjusted GTI

e. 25% of adjusted GTI
f. 2,000 p.m

SECTION 80QQB

6. Allowed to individual resident in India.
7. Deduction is allowed for income from assignment of copyright of any book.
8. Such book should be work of literary, artistic, or scientific nature and not text book of school guides or newspaper etc.
9. An assessee shall be allowed as deduction RS. 3,00,000 or actual royalty whichever is less.
10. In respect of royalty received from outside India only that royalty shall be considered which is brought into india in foreign exchange within 6 month from the end of P/Y or the extended time.

CLUBBING OF INCOME

Income from assets transferred to spouse

3. Where any assets other than house property is transferred by an individual to his/her spouse directly or indirectly than any income form such assets shall be the income of transferor.
4. However clubbing shall not be done if assets is sold for adequate consideration or transfer under an agreement to live apart or relationship of husband and wife does not exist either at time of transfer or at the time of accrual of income.

Income of minor child

6. All income that accrue to minor child will be included in the total income of that parent whose total income is greater (before including income of child).
7. If marriage of parents does not exist it shall be included in the income of that parents who maintains the child.
8. Where any such income is once included in the total income of either parents ,any such income of any succeeding year shall be included in the income of other parent only if AO is satisfied that child is being maintained by the other parent.
9. Income of minor child shall not be clubbed if child is suffering from any disability or income of child on account of manual work or activity involving skill, talent or specialised knowledge.
10. If income of child is so included , the parent shall be entitled to an exemption of maximum RS. 1,500 in respect of each minor child.

Income from assets transferred to daughter in law

3. If an individual transfer any assets to his daughter in law , without adequate consideration income from such assets will be include in the total income of transferor .

4. If transferred assets is invested in any business than following amount shall be included in the income of transferor :-

Income from self- acquired property converted into joint family property

3. If an individual, who is a member of HUF , convert his self- acquired property as property to the HUF than income derived by such property shall be included in the income of transferor .
4. If the converted property is subsequently transferred among the members of family the income derived from such converted property received by spouse of transferor will be included in the income of transferor.

Income transferred without transfer of assets

2. If a person transfer income to another person , without transfer of assets from which the income arises, then such income shall be taxable in the hand of transferor.

Revocable transfer of assets

3. If whole or part of income or assets can be re-transferred to transferor than such transfer is called revocable transfer.
4. If there is revocable transfer of any assets than income from such transfer shall be taxable in the hands of transfer.

Remuneration of spouse

5. An individual is chargeable to tax in respect of any salary , commission , fees or any other remuneration received by spouse from a concern in which the individual has substantial interest.
6. If husband and wife both has substantial interest in the concern and both are receiving remuneration from the concern than remuneration of both shall be clubbed in the hand of that spouse whose total income is greater, before clubbing the income.
7. Substantial interest means if an individual along with relative is entitled to at least 20% equity share or 20% profit.
8. Relative means husband ,wife, brother or sister of any lineal ascendant or descendant of individual

SET OFF, CARRY FORWARD AND SET OFF

Set off loss from one source against income from another source under same head of income

4. If there is loss under any source falling under any head of income , other than capital gain than assessee shall be entitled to set off such loss against income from any other source under same head.

5. If there is short term capital loss, the assessee shall be entitled to set off such loss against income of any other capital asset.
6. If there is a long term capital loss, the assessee shall be entitled to set off such loss against income from long term capital asset .

Set off loss from one head against income from another

4. If there is loss under any head of income , other than capital gain he shall be entitled to set off such loss against income for that assessment year under any other head.
5. If there is loss under the head PGBP and assessee has income under the head salary, than he shall not entitled to set off such loss against salary.
6. if there is loss under the head capital gain , assessee shall not set off such loss against income under other head.

Carry forward and set off of loss from house property

2. if there is loss under the head income from house property , such loss can not be set off against income from any other head as well as income from house property than such loss should be carried forward up to 8 assessment year and set off against income from house property only.

Carry forward and set off of business losses

2. if there is loss under the head PGBP but not being a loss of speculation business , and such loss cannot be setoff against income under the any head or same head in same assessment year than it should be carry forward and set off against income under same head in following eight assessment year.

Losses in speculation business

3. Any loss in respect of speculation business , shall not be set off except against profit of another speculation business.
4. If such loss cannot be set off in same assessment year than it should be carry forward and set off from profit of same head in following four assessment year.

Losses under the head capital gain

3. If there is loss under the head capital gain the loss shall be carried forward to the following assessment year and if loss relates to short term capital asset, it shall be set off against income under the head capital gain up to 8 assessment year.
4. If loss relate to long term capital asset it shall be set off against income from long term capital asset only up to 8 assessment year.

Losses from certain specified sources falling under the head income from other sources

3. In this case of an assessee, being the owner of horses maintained by him for running in horse race , the loss incurred in the activity of owning and maintaining race horse in any assessment year shall not be set off against

income from any sources other than activity of owning and maintaining race horse in the year and shall be carried forward to following assessment year and it shall be set off against the income from the activity of owning and maintaining race horse.

4. No such loss shall be carried forward for more than four assessment year.

Double Taxation Avoidance Agreement

For NRIs who are working in other countries, the Double Taxation Avoidance Agreement helps to avoid paying double taxes on income earned in both their country of residence and India. There are 80 countries which India has this agreement with.

What is Double Taxation Avoidance Agreement (DTAA)?

The DTAA, or Double Taxation Avoidance Agreement is a tax treaty signed between India and another country (or any two/multiple countries) so that taxpayers can avoid paying double taxes on their income earned from the source country as well as the residence country. At present, India has double tax avoidance treaties with more than 80 countries around the world. The need for DTAA arises out of the imbalance in tax collection on global income of individuals. If a person aims to do business in a foreign country, he/she may end up paying income taxes in both cases, i.e. the country where the income is earned and the country where the individual holds his/her citizenship or residence. For instance, if you are moving to a different country from India while leaving income sources such as interest from deposits in here, you will be charged interest by both India and the country of your current residence as per your consolidated global earnings. Such a scenario can have you pay twice the tax over the same income. This is where the DTAA becomes useful for taxpayers.

Benefits of DTAA:

There are lots of benefits associated with DTAA for taxpayers. The basic benefit includes not having to pay double taxes on the same income. Apart from this,

- Lower Withholding Tax (Tax Deduction at Source or TDS)
- Tax credits
- Exemption from taxes

The primary idea behind DTAA agreements with various countries is to minimize the opportunity for tax evasion for tax payers in either or both of the countries between which the bilateral/multilateral DTAA agreement have been signed. Lower withholding tax is a plus for taxpayers as they can pay lower TDS on their interest, royalty or dividend incomes in India, while some agreements provide for tax credits in the source or country of operations so that taxpayers don't pay the same tax twice. In some cases, such as agreements with Mauritius, Cyprus, Singapore, Egypt etc. capital gains tax is exempted which can be a boon to taxpayers as they

INCOME TAX RETURN

Income Tax Return is the form in which assesses files information about his Income and tax thereon to Income Tax Department. Various forms are ITR 1, ITR 2, ITR 3, ITR 4, ITR 5, ITR 6 and ITR 7. When you file a belated return, you are not allowed to carry forward certain losses.

These returns should be filed before the specified due date. Every Income Tax Return Form is applicable to a certain section of the Assesses. Only those Forms which are filed by the eligible Assesses are processed by the Income Tax Department of India. It is therefore imperative to know which particular form is appropriate in each case. Income Tax Return Forms vary depending on the criteria of the source of income of the Assesses and the category of the Assesses.

Advance tax

Advance tax is also known as pay as you earn tax as it can be deposited from time to time with the income tax department in advance as opposed to the lump sum amount. The **advance tax** is to be paid as per the due dates mentioned by the income tax department in the form of installments. Under this schemes, every assesses is required to pay tax in a particular financial year, preceding the assessment year, on an estimated basis. However, if such estimated tax liability for an individual who is not above 60 years of age at any point of time during the previous year and does not conduct any business in the previous year, and the estimated tax liability is below ₹ 10,000, advance tax will not be payable.

Until FY 2015-16, the due dates and amount of advance tax were different for corporate taxpayers and individual taxpayers. However, from FY 2016-17, both categories of taxpayers were brought at par. Further, individuals opting presumptive scheme of taxation u/s 44AD, 44ADA are liable to pay advance tax in single installment. The due dates of payment of advance tax for F.Y 17-18 are:-

	In case of corporate assesses as well as Individuals	**For Persons opting sec 44AD & 44ADA**
On or before 15 June of the previous year	Up to 15% of advance tax payable	-

On or before 15 September of the previous year	Up to 45% of balance of advance tax payable	-
On or before 15 December of the previous year	Up to 75% of balance of advance tax payable	-
On or before 15 March of the previous year	Up to 100% of balance of advance tax payable	Up to 100% of the advance tax payable

Any default in payment of advance tax attracts interest under section 234B and any deferment of advance tax attracts interest under section 234C.

SERVICE MARKETING (305)

UNIT -1

INTRODUCTION

The world economy nowadays is increasingly characterized as a service economy. This is primarily due to the increasing importance and share of the service sector in the economies of most developed and developing countries. In fact, the growth of the service sector has long been considered as indicative of a country's economic progress.

Economic history tells us that all developing nations have invariably experienced a shift from agriculture to industry and then to the service sector as the main stay of the economy.

This shift has also brought about a change in the definition of goods and services themselves. No longer are goods considered separate from services. Rather, services now increasingly represent an integral part of the product and this interconnectedness of goods and services is represented on a goods-services continuum.

DEFINITION AND CHARACTERISTICS OF SERVICES

The American Marketing Association defines services as - "Activities, benefits and satisfactions which are offered for sale or are provided in connection with the sale of goods."

The defining characteristics of a service are:

1. **Intangibility:** Services are intangible and do not have a physical existence. Hence services cannot be touched, held, tasted or smelt. This is most defining feature of a service and that which primarily differentiates it from a product. Also, it poses a unique challenge to those engaged in marketing a service as they need to attach tangible attributes to an otherwise intangible offering.
2. **Heterogeneity/Variability:** Given the very nature of services, each service offering is unique and cannot be exactly repeated even by the same service provider. While products can be mass produced and be homogenous the same is not true of services. eg: All burgers of a particular flavor at McDonalds are almost identical. However, the same is not true of the service rendered by the same counter staff consecutively to two customers.
3. **Perishability:** Services cannot be stored, saved, returned or resold once they have been used. Once rendered to a customer the service is completely consumed and cannot be delivered to another customer. eg: A customer dissatisfied with the services of a barber cannot return the service of the haircut that was rendered to him. At the most he may decide not to visit that particular barber in the future.
4. **Inseparability/Simultaneity of production and consumption:** This refers to the fact that services are generated and consumed within the same time frame. Eg: a haircut is delivered to and consumed by a customer simultaneously unlike, say, a takeaway burger which the customer may consume even after a few hours of purchase. Moreover, it is very difficult to separate a service from the service provider. Eg: the barber is necessarily a part of the service of a haircut that he is delivering to his customer.

TYPES OF SERVICES

1. **Core Services:** A service that is the primary purpose of the transaction. Eg: a haircut or the services of lawyer or teacher.
2. **Supplementary Services:** Services that are rendered as a corollary to the sale of a tangible product. Eg: Home delivery options offered by restaurants above a minimum bill value.

DIFFERENCE BETWEEN GOODS AND SERVICES

Given below are the fundamental differences between physical goods and services:

Goods	Services
A physical commodity	A process or activity
Tangible	Intangible
Homogenous	Heterogeneous
Production and distribution are separation from their consumption	Production, distribution and consumption are simultaneous processes
Can be stored	Cannot be stored
Transfer of ownership is possible	Transfer of ownership is not possible

PROBLEMS IN MARKETING SERVICES:

1. A service cannot be demonstrated.

2. Sale, production and consumption of services takes place simultaneously.

3. A service cannot be stored. It cannot be produced in anticipation of demand

Services cannot be protected through patents.

5. Services cannot be separated from the service provider.

6. Services are not standardized and are inconsistent.

7. Service providers appointing franchisees may face problems of quality of services.

8. The customer perception of service quality is more directly linked to the morale, motivation and skill of the frontline staff of any service organization.

GROWING IMPORTANCE OF SERVICE SECTOR IN INDIA:

The services sector is not only the dominant sector in India’s GDP, but has also attracted significant foreign investment flows, contributed significantly to exports as well as provided large-scale employment. India’s services sector covers a wide variety of activities such as trade, hotel and restaurants, transport, storage and communication, financing, insurance, real estate, business services, community, social and personal services, and services associated with construction.

MARKET SIZE

The services sector is the key driver of India’s economic growth. The sector has contributed 54.17 per cent of India’s Gross Value Added at current price in 2018-19*. Net service exports stood at US$ 60.25 billion in April-December 2018 (P).

Nikkei India Services Purchasing Managers' Index (PMI) stood at 52.5 in February 2019. The expansion in services activity was driven by boost in capacity and demand along with favourable public policies.

INVESTMENTS

Some of the developments and major investments by companies in the services sector in the recent past are as follows:

- Leisure and business travel and tourism spending are expected to increase to US$ 234.4 billion and US$ 12.9 billion in 2018, respectively.
- India’s earnings from medical tourism could exceed US$ 9 billion by 2020.
- Indian healthcare companies are entering into merger and acquisitions with domestic and foreign companies to drive growth and gain new markets.

GOVERNMENT INITIATIVES

The Government of India recognises the importance of promoting growth in services sectors and provides several incentives in wide variety of sectors such as health care, tourism, education, engineering, communications, transportation, information technology, banking, finance, management, among others.

The Government of India has adopted a few initiatives in the recent past. Some of these are as follows:

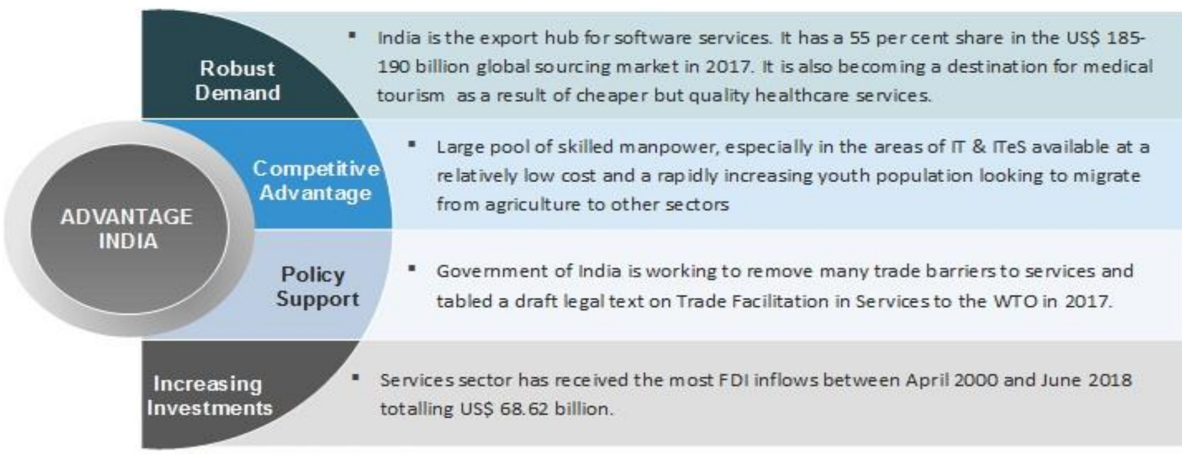
Under the Mid-Term Review of Foreign Trade Policy (2015-20), the Central Government increased incentives provided under Services Exports from India Scheme (SEIS) by two per cent.

Government of India is working to remove many trade barriers to services and tabled a draft legal text on Trade Facilitation in Services to the WTO in 2017.

ACHIEVEMENTS

Following are the achievements of the government in the past four years:

- India's rank jumped to 24 in 2018 from 137 in 2014 on World Bank's Ease of doing business - "Getting Electricity" ranking.
- Five times more growth in major ports' traffic between 2014-18, compared to 2010-14.
- Six-fold increase in Government spending on telecommunications infrastructure and services in the country – from Rs 9,900 crores (US$ 1.41 billion) during 2009-14 to Rs 60,000 crores (US$ 8.55 billion) (actual + planned) during 2014-19.
- A total of 11 projects worth Rs 824.80 crore (US$ 127.98 million) were sanctioned under the Swadesh Darshan scheme.
- Highest ever revenue was generated by Indian IT firms at US$ 167 billion in 2017-18.



Note: WTO – World Trade Organisation

FIG. 1

SERVICE MARKETING PROCESS OVERVIEW

The success of a service organization depends not only on managing the existing services efficiently but also in developing new services. A dynamic organization always tries to identify new opportunities and convert them into profitable business propositions: New service development must be a well thought out plan and envisages several processes.

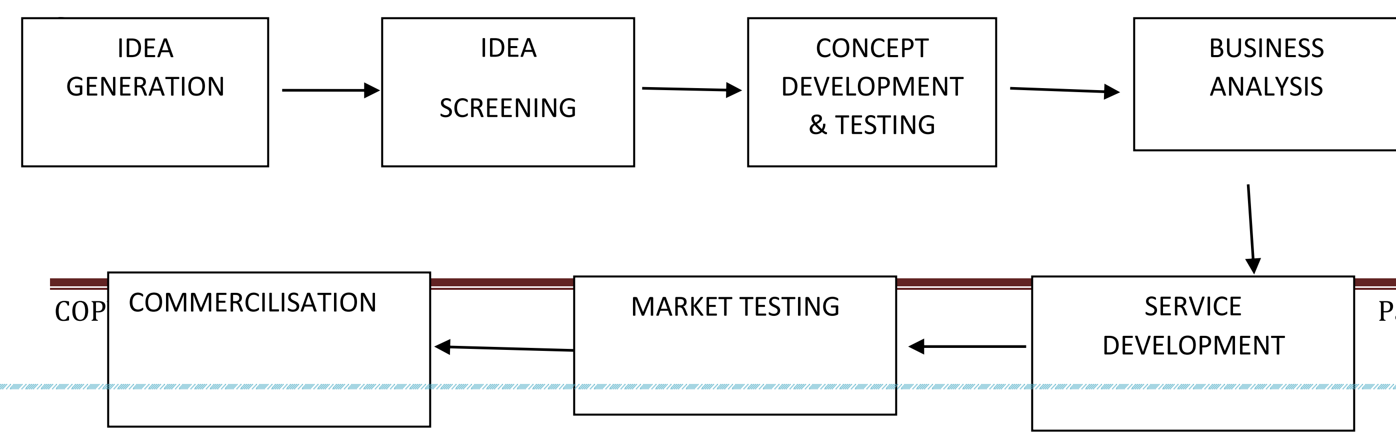


FIG. 2 SERVICE MARKETING PROCESS OVERVIEW

1. **IDEA GENERATION**

   Generation of a creative idea is the beginning of a successful service. It starts with a careful analysis of customer needs and market opportunities. The idea **can** come from internal sources like staff, organization's own research and development studies, management's judgment etc. or from external sources like customers, consultants, market demand analysis etc. Marketing research **can** contribute new ideas or disclose new areas where a firm can enter and exploit the opportunity.

2. **SCREENING THE IDEA**

   Screening is a preliminary investigation of the new service idea. The object of screening the idea is to see whether the idea needs a detailed analysis or it must be dropped altogether. In the screening stage, the organization has to verify details of the idea **such** as its attractiveness, the expected size of market, the compatibility of the idea with the organization's objectives **and** resources etc. The screening reveals the ideas to be rejected and those feasible ideas to be accepted. These feasible ideas are considered for further analysis and development.

3. **CONCEPT DEVELOPMENT AND TESTING**

   A service idea develops into a service concept which is an elaborated version of **the** idea expressed in meaningful consumer terms. Concept testing calls for gathering the reactions of consumers to the service concept. In product marketing extensive marketing research and **consumer surveys** are used for product testing. But in services the concept testing is **made** by discussing the concept with small group of target clients or by smallscale surveys of existing and potential clients.

4. **BUSINESS ANALYSIS**

   Business analysis is an in-depth exploration and evaluation of the service concept. It involves analysis of the key parameters of the service including its market potential and profitability. The analysis focuses on **areas** like the target market, its size and expected market share, the level of current and future demand, analysis of breakeven point and profitability, external market environment affecting performance etc.

5. SERVICE DEVELOPMENT

At this stage, preparations are made for developing and launching the service. Necessary infrastructure may be developed for rendering the **new** service like designing and supplying literature, brochures, schedules and other tangible elements of the service. A suitable marketing strategy is also developed at this stage. Sometimes the existing process **may** be adapted for accommodating the new service or **new** premises may be added.

6. MARKET TESTING

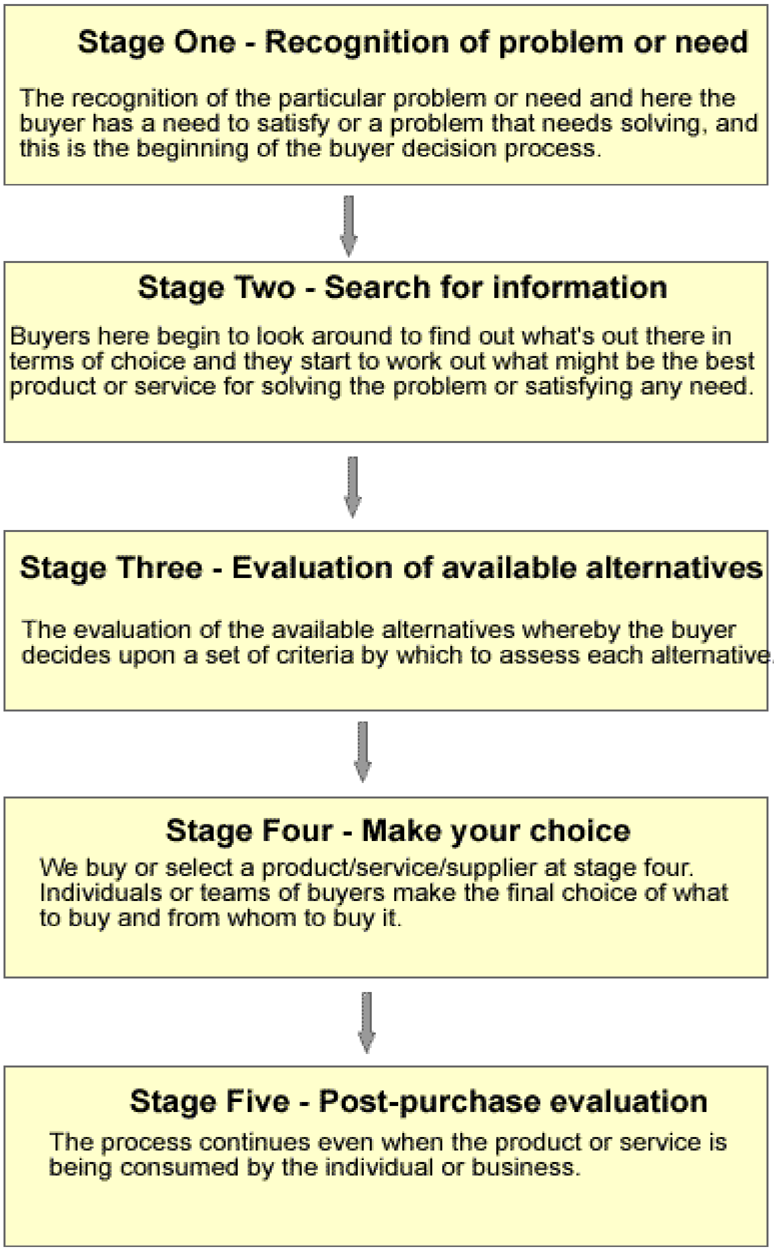
Market testing is the process of introducing the service to a selected number of clients to examine its viability and market **performance.** It helps to identify the weaknesses of the service including its marketing plan. If the market testing proves to be successful the service can be launched with full fledged marketing programme.

7. COMMERCIALIZATION

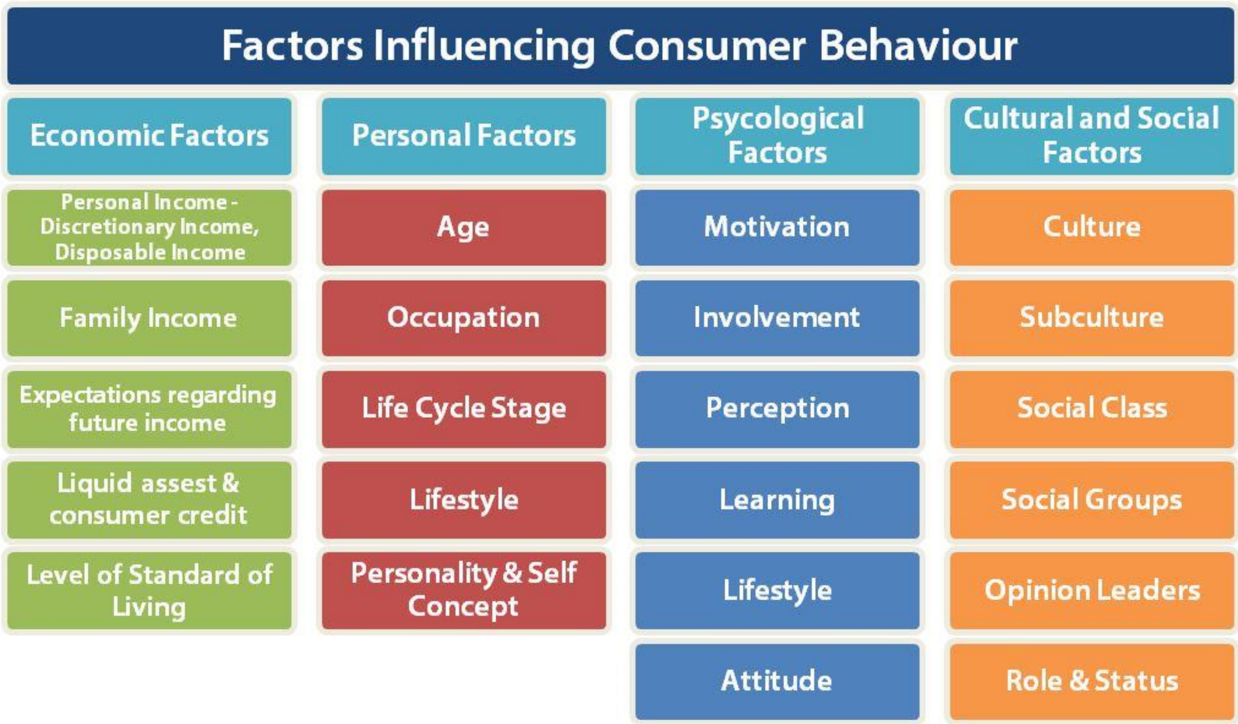
In the final stage of a service promotion, the service is launched commercially. The organisation may also adopt suitable marketing strategies for the successful implementation of the marketing programme.

UNIT-2

CUSTOMER BUYING DECISION MAKING PROCESS:



The Buyer Decision Process

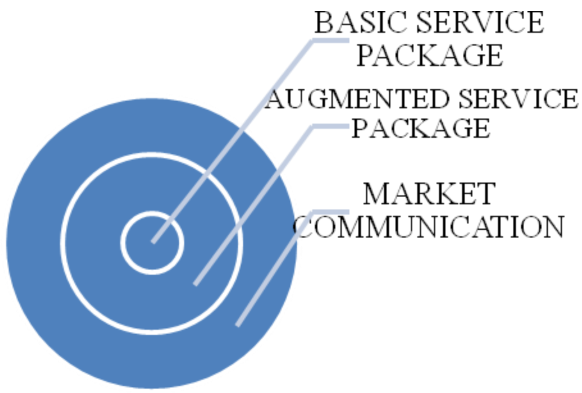


SERVICES MARKETING MIX – AN OVERVIEW

Marketing of products has 4 'P' dimensions, viz., Product, Price, Promotion and Place. These are used in specific combination to arrive at the marketing strategy. Services' marketing has three additional dimensions over and above the 4 Ps – People, Physical evidence and Process – making the requirements as 7 'P's. The different elements of services marketing mix are explained below.

1. **Product**

Services can be visualized as products which provide benefits to the customers in the target market. Services are bundles of features, processes, deeds and performances which give benefits to specific target markets. It is important that the package of benefits in the service offer must have a customer's perspective. The service product offer usually consists of three levels.



The first level is that of the basic service package which includes core service, facilitating services and supporting services. The second level is that of an augmented service offering where accessibility, interaction and consumer participation are given equal importance in delivering the service product. The third level is that of the market communication of the service offering as in its absence the value added augmented service package will not have any relevance to the customer.

The Service package: The package concept of service product suggests that what you offer to the market is a bundle of different services, tangible and intangible, but there is a basic or core service and around it are built the facilitator services. It is important to note that facilitating services are mandatory, and if they are left out, the entire service would collapse. The service package also includes supporting services. Supporting services do not facilitate the consumption of core service, but are used to increase the value, and thereby differentiate it from the competitor's services. For example, in Taj Gardenia, the 5-star deluxe hotel in Bangalore, the core service is lodging and room service, the services of bell-boy (room boy) and housekeeping are facilitating services, and swimming pool, health club and travel desk are supporting services.

The Augmented Service Offering: It is found that in many instances, the basic service package is not equivalent to the service product the customer perceives. Customers perceive a service based on his/her experience and evaluation. Therefore, there is a need to involve the customer in the production of service offering and thereby reinforcing that the basic service package has to be expanded to a more holistic model of augmented (value added) service offering. Issues related to the accessibility of the service, interaction with the service organization and consumer participation are also integral elements of the augmented service product.

ELEMENTS OF AUGMENTED SERVICE OFFERS

Accessibility of the	Number and skill of employees

service	Working hours and time used in performing various tasks Location of service outlet Exterior and interior of service outlet Infrastructure, hardware, documentation The number and knowledge of consumers simultaneously involved in the process.
Interaction with service organisation	Interactive communication between employees and customers Interaction with the physical and technical resources of the organization needed in the service production process Interaction with other consumers involved in the process
Customer participation	How well the customer is aware about the process of service delivery and his / her role. How well the customer is prepared to share information How well the customer is willing to share or use service equipment

Market Communication of the Service Offering

A favourable image enhances the service experience and a bad image may even destroy it. Because of this, the issue of management of image through market communication becomes an integral part of the service product. Apart from the conventional methods of promotion, corporate image and word-of-mouth are equally (or more) important. A negative comment from a fellow customer is more than enough to neutralize the effect of the service marketer's efforts of mass media advertising, media blitz and direct promotions.

The important aspect to consider in marketing service as a product is to understand what benefits and satisfaction the consumer is seeking from the service. For example, from the view-point of a Café Coffee Day restaurant's manager, the outlet simply provides coffee and snacks. But the customers visiting the restaurant may be seeking an outing, an experience, or an atmosphere different from home, relaxation, socialization, entertainment or even status, in addition to the coffee and snacks. The marketing of services can be a success only if there is a match between the service product from the consumer's view-point and the service provider's (supplier's) view-point. To find this match, the service will have to be analysed at the following levels:

1. The Customer Benefit Concept

2. The Service Concept

3. The Service Offer

4. The Service Form

5. The Service Delivery System

1. Customer Benefit Concept

The service product offered in the market must have its origin in the benefits sought by the customers. But the problem is that customers themselves may not have a clear idea of what they are seeking or they may find it difficult to express or it may be a combination of many benefits and not a single one. The benefits sought may also change over a period of time. This change in customers may come about by a satisfactory or unhappy experience in utilising the service, through increased sophistication in service use and consumption, and changing expectations. All these make the issue of marketing a service product very complex.

2. Service Concept

The service concept defines the specific customer benefits which the service offers. At the generic level, the service concept refers to the basic service which is being offered. For example, a theatre like Ranga Sankara or Ravindra Kalakshetra in Bangalore may offer entertainment and
recreation. But within this broad framework, there can be specific choice paths for satisfying the
entertainment objective, like drama, musical concerts, mime, poetry recitation and classical dance (Bharata Natyam or Yakshagana). Defining the service concept helps the service provider to answerthe basic question, "What business are we in?"

3. Service Offer

After defining the business in which the provider is operating, the next step is to give a specific shape and form to the basic service concept. Taking the same example of the theatre, the service
concept is to provide entertainment. The service offer is concerned with the specific elements that will be used to provide entertainment – drama, music, mime, poetry recitation and dance. In the category of musical concerts the choice may be vocal or instrumental; within vocal, whether classical or light and within classical, whether Carnatic, Hindustani or Western. While these represent the intangible items of the service offer, the physical infrastructure of the theatre, in terms of its seating capability, comfortable seats, quality and acoustics, good air conditioning, snack bar and toilets are the tangible items. The tangible aspects can be controlled by offering the best possible benefit, but the quality and control both the tangible and the intangible components. But in practice

he can control only the tangible components (e.g., maximum duration of the recital, brief introduction before each dance item, etc.)

4. Service Form

Another aspect to be considered is about the form in which the services are to be made available to customers. Should all the shows of the theatre be available in a package deal against an annual membership fee or a season ticket? Should there be daily tickets with the consumer having freedom to watch any one or more performances being staged on that particular day? Or should each performance have a separate entrance ticket, with a higher priced ticket for a well-known performer? Service form refers to the various operations relating to each service element. The manner in which they are combined gives shape to the service form.

5. Service Delivery System

When a customer goes to his bank to withdraw money from his account, he either uses a cheque or a withdrawal slip in which all particulars are filled in, signed, and handed over to the clerk, who gives him a token. The customer waits for his turn. When called, he goes to the counter, where the clerk, after verifying the details and debiting his account, gives the customer his money. The cheque, or withdrawal slip, the token and the clerk constitute the service delivery system in this case. In a restaurant, the waiters are the elements of the delivery system. The two main elements in a delivery system are the people and the physical evidence. The competence and public relations ability of the bank staff represent the people component, while the bank building, the interior décor furniture, signage, counters, etc., are all elements of the physical evidence. The physical evidence components are also known as facilitating goods, and supporting goods. These are the tangible elements of the service and they exert an important influence on the quality of the service as perceived by the consumers.

2. PRICING

For tangible products, the term 'price' is used for all kinds – FMCG, clothes, durables, land, building, etc. But, in the case of services, different terms are used for different services.Like rent, premium, ticket, fare, interst, commision, wages, salary and traiff etc. While fixing prices of services, the perishability characteristic has to be considered seriously because fluctuations in demand cannot be met through stock inventory like physical products. In order to offset the perishable characteristic of services, hotels and airlines offer lower rates in off-season. The intangibility element in services also creates difficulties in pricing decisions. Fees for lawyers, doctors and consultants cannot be uniform and will vary according to their expertise and also the nature of service provided. Another aspect to be considered in pricing services is that for many services prices are subject to regulations, either by the government or by trade associations. Bank interest rates, bank charges, electricity and water tariff, telephone, rail and air transport fare, etc., are controlled by the government. In such cases, the service provider does not have any freedom to fix the prices on his own.

Generally two methods are used to decide prices in services – cost-based pricing and marketoriented pricing. In cost-based pricing, the prices have to conform to government or industry guidelines for many services. The market-oriented pricing may be at par with competitors' or below that. Another alternative, customer-oriented pricing is varied according to customer's ability to pay. For example, airlines have economy class and executive class; hotels have normal rooms, deluxe rooms, suites, etc., at different tariff.

Services are usually sold using the following pricing methods:

1. Differential or flexible pricing. This involves charging different prices for different customers, based on their ability to pay, period or time slot (peak season, off-season, etc.), and place difference (balcony and front rows in a theatre, economy and executive classes in a plane).

2. Discount pricing. This is the practice of offering a commission or discount to dealers, advertising agencies, stock brokers, real estate dealers and travel agents for their services. Introductory discounts can be offered to customers also as a promotional tool.

3. Diversionary pricing. In this method, a low price is charged for a basic service to attract customers. A restaurant may offer a mini-meal at a low price but without a soft drink or a sweet dish. The customer who is attracted by the low price may be tempted to buy a soft drink or an ice-cream or some additional dish. He will thus end up buying more than just the mini-meal.

4. Guaranteed pricing. This is a method where the fee or commission is to be paid only after the results are achieved. Employment agencies charge their fee only when a person actually gets a job. Similarly, a realtor or a real estate agent charges his commission only after the deal is made.

5. High price maintenance pricing. This is a method where high prices are charged, which is associated with the quality of the service. Many specialist doctors, leading lawyers and other professionals follow this pricing strategy.

6. Loss leader pricing. This strategy is one in which an initial low price is charged in the hope of getting more business at subsequently better prices. This method has the danger of the initial low price becoming the standard for all times to come.

7. Offset pricing. This has similarity to diversionary pricing in which a basic low price is charged but the extra services are priced rather high. For example, a gynecologist may charge a low fee for the nine months of pregnancy through which she regularly checks her patient, but may charge extra for attending to the actual delivery and post-delivery check up visits.

3. Promotion

While designing the promotion strategy for services, a basic thing to be remembered is that the customers rely more on subjective impression rather than concrete evidence. This is because of the inherent intangible nature of services. Also, the customer is likely to judge the quality of service on the basis of the performer rather than the actual service. Since it is difficult to sample the service before paying for it, the customer finds it difficult to evaluate its quality and value. Because of all these factors, buying a service is a more risky business than buying a product. The marketing manager should, therefore, design a promotion strategy which will help the customer overcome these constraints. The four methods used for promoting services, viz., advertising, personal selling, publicity and sales promotion are the same as used in the promotion of products.

Advertising

Most services like entertainment (cinema, theatre), passenger and freight transport (roadways – TVS, ABT – airlines, railways), hotels, tourism and travel, banks and insurance advertise heavily innewspapers, internet, e-mail, SMS, etc., radio and TV channels to promote greater usage and attract more customers. On the other hand, a few service professionals like doctors, lawyers and advertising agencies rarely use advertising to increase their customers. These service providers rely on word-ofmouth for attracting new customers. Educational services like schools and colleges nowadays use advertising to canvass for admissions highlighting their facilities and academic standards.

Personal Selling

In the case of some services, personal selling is used to promote by sending professionals to the clients instead of salesmen. Management consultants, advertising agencies, and travel agencies do this for canvassing new business from major clients. This method is, of course, expensive. Some services arrange for tie-ups with other services. For example, management consultants or insurance companies tie up with banks, and hotels tie up with airlines or tourism department.

Publicity

Publicity is used by some services by holding press conferences or by sponsoring events like fashion shows, musical programmes, sports, etc.

Sales Promotion

Many types of sales promotion techniques are used to promote services. For example, travel companies like Cox & King offer a free ticket for spouse and 2 children below 12 years for a foreign trip package. Fly now, pay later schemes are introduced by airlines in the off-season periods. Some doctors charge a reduced fee on subsequent visits to retain loyalty of the patients. Professional colleges offer free laptops and foreign trips for MBA students. These offers are also used to offset the perishability characteristic of services.

4. Distribution (Placement)

Regarding the distribution strategy for services, the major decision relates to the issue of location of the services, to ensure that maximum numbers of customers are attracted. The inseparability characteristic of services like the doctors, professors, consultants, and mechanics poses a distribution problem since they are able to service only a limited, localised market. But when awareness about the quality, dependability and retailability spreads by word-of-mouth, people from other localities will also patronize these services. Another characteristic of services which affects the distribution strategy is the fixed location of services like universities, colleges, banks, restaurants and hospitals, which necessitates the customer to go to the service location.

Parcel delivery at the customer’s doorstep by some services like Domino’s, PIZZA HUT, Nandhini Hotels, etc. are ways of surmounting this constraint. Some hospitals like Apollo, Sagar, etc. have opened smaller clinics in different locations to cater to localized demand for its services. Banks, nowadays, provide ATMs and Internet banking and mobile banking to facilitate customers. Some services operate through intermediaries. For example, airlines, property, and life insurance have agents or dealers for canvassing and sales. Franchising is one popular distribution strategy. In India, many services use franchising to expand their network in several locations. For e.g., PIZZA HUT, Domino's, Nilgiri's, Kwality-Walls ice-cream parlours, StayFit and Gold's Gym, etc. have franchise arrangements.

5. **People**

People, as the human element, constitute an important dimension in services marketing in their role as both performers of service and as customers. People as performers are important because customers see a company through its employees. The employees represent the first line of contact with the customer. Therefore, the employees must be polite, courteous, well-informed, and well-behaved, and must provide the kind of service that wins the approval of the customers. The behaviour and attitude of the service employees will have an important influence on the customers' overall perception of the service and its quality and he/she can rarely distinguish between the actual service rendered and the human element involved in it. This is evident in the example of a customer calling a service provider over the phone, and is asked to hold on for a long time – a frustrating experience for the customer.

Because of the above reasons, the service marketer has to be concerned with improvement of quality and performance of the service personnel. Careful selection and thorough training, laying down service standards and norms for good, consistent behaviour and appearance are important aspects to be looked into. Customers are important because they are a source of influencing other customers. For example, in the case of doctors, lawyers, consultants and even restaurants and hotels, one satisfied customer will lead to a chain reaction bringing other new customers. On the other hand, a dissatisfied customer will spread adverse word-of-mouth which will deter others in patronizing the particular service provider. Customer satisfaction is, therefore, very important in service marketing also.

6. **Physical Evidence**

Physical evidence refers to the environment in which service is provided. It is also called the 'servicescape'. Cleanliness in a doctor's clinic, exterior appearance and interior décor of a restaurant, the comfort of air conditioning in a cinema theatre, all contribute towards the image of the service (and the company running the service) as perceived by the customer. The common factor in these is that they are all physical, tangible and controllable aspects of a service provider. These constitute the physical evidence of the service. There are two kinds of physical evidence – peripheral evidence and essential evidence. Peripheral evidence is tangible items of the service which are possessed by customers as a part of the purchase of service but by themselves are of no value. Airline ticket, boarding pass, cinema ticket, bank cheque book and pass book, receipt for a confirmed booking in a hotel, menu card in a restaurant, etc. are examples of peripheral evidence. These are tangibles which add on to the value of essential service. Such evidences must be designed keeping in view the overall image which the service provider wishes to project. Some gifts and complimentary take-aways are also given by some services which serve as reminder value to customers.

While most peripheral evidences are possessed and taken away by the customer, the essential evidence cannot be possessed by them. The building, its size and design, interior layout and décor, logo, signages, lobby of hotels, etc. are constituents of the essential service. These are very important in determining the atmosphere and environment of the service provider. Differentiation of service can be achieved by suitably modifying the essential evidence. For example, the ambience of a five-star hotel and an ordinary hotel, a government hospital and a deluxe hospital like Apollo, the cheap classic cinema hall and the luxurious Gold Class hall in PVR cinema, etc. are examples of such differentiation brought about through essential evidence. The service marketer can thus use physical evidence tobuild a strong association in the minds of customers and also differentiate its services from the competitors. It can be effectively used to create an ideal environment for the service.

7. Process

In service organizations, the system by which the customer receives delivery of the service constitutes the process. For example, in fast food outlets like McDonald's, the process comprises of buying the coupons at one counter and picking up the food against the coupons at another self-service counter. In a bank, the process involves tendering the cheque at one counter, collecting a token, and as the customer's turn comes, getting the cash from the teller counter.

Services can be described on the basis of type of process used in the delivery of the service. The three kinds of delivery processes that are applicable in the case of service products are line operations, job shop operations and intermittent operations. Self-service restaurants (McDonald's, Darshinis, etc.) and supermarkets are examples of line operations. The consumer moves along logically arranged operations which are in a sequence.

Examples of McDonald's and a bank given above are of this type. This kind of delivery process is relevant when the service provided is reasonably standardized and the customer's requirement is of a routine nature.

In other cases, when the consumers require a combination of services using different sequences, the job shop type of operation is more useful. Most of the hospitals, restaurants, and educational institutions usually have this type of delivery process. In a hospital, for example, some patients need only consultation in the outpatient department, while some others may need consultation as well as medication, or X-ray. Some patients require hospitalization for observation, surgery, medication or detailed investigations. All these categories of consumers require a different combination of the hospital's services. In a restaurant, similarly, consumers order their own combination of dishes from ala-carte menu.

Intermittent operations are useful when the type of service is rarely repeated. Legal and management consultancy service providers use this kind of delivery system. The service will be only for one case or one project at a time, which will be highly customized. The advertising agencies also use the intermittent delivery process since each advertising campaign requires a unique set of input factors. The service marketer has to emphasize his attention on the three additional dimensions – people, physical evidence and process – while evolving the marketing strategy, and has to combine them with the usual 4Ps to achieve a harmonious blend, to satisfy the customers and to be successful in business.

UNIT -3

Service Quality

Service firms do try to achieve total quality in their performance. The total quality marketing aims to achieve quality performance right at the first time. The entire organisation's orientation should be generating quality perceptions to the customers. Service firms can set targets for 100 per cent performance right at the first time. For some service organisations 100 percent quality performance is a must, unlike manufacturing organisations. An airport cannot satisfy anything less than 100 per cent performance in all its operations. Any failure anywhere may lead to disastrous consequences. Service firms are required to develop or respect some philosophies relating to service quality. The following are some of the philosophies that promote quality atmosphere in the organisation.

Philosophies of Total Quality Services Marketing

The philosophies of total quality services marketing are as follows:

1. **Quality must be perceived by Customers:** The employees of the service firm and the customers are involved in the service production. Both will perceive the quality that resulted in the service encounter. If employee is satisfied with the quality and customer is not satisfied, the service firm cannot claim quality performance. If the perceptions are vice versa, the problem of the service firm is only internal. It can train the employee in such a way that they can see the quality in customer reactions. The customer perceived quality is the only end towards which service firms should orient themselves.

2. **Quality must be reflected in every Company Activity**: A customer who reserved a hotel accommodation for five days will have hundreds of interactions - Right from gatekeeper's salute – to facilitating services performance, supporting services performance and their consistency, co-customers, events, etc. The sum of all these experiences will contribute for the development of an overall customer perceived quality. Excellent performance in some parts, average performance in some and poor performance in some parts of the basic service page can not contribute to the positive perceptions of the customers. Every activity should reflect quality performance. Therefore, organisations should develop a total view of the service product to perform quality rather than in bits and pieces.

3. Quality requires Total Employees Commitment*:* Employees constitute the core strength for service firms. Only human beings can generate feeling and experiences in the customers differently every time. Satisfied employees exhibit their belongingness to the organisation and handle varied situations with greater involvement. Employee's commitment is an essential prerequisite to those service firms that want to ensure total quality service marketing. Internal marketing need to be operated efficiently to enhance morale and to motivate the employees to perform better in service encounters.

4. **Quality can always be improved*:*** There will be no ceiling for quality as far as services are concerned. The scope is always open for further improvement. Therefore, service firms should not satisfy with the existing performance standards of quality, even if the customers are expressing satisfaction. A continuous research is necessary for the improvement of quality. Service firms should develop quality circles and strategic groups among the employees, so that they have a bank of ideas for further improvement. Sometimes, very minor improvements also have the capability to create major quality impressions to the consumers.

5. **Quality does not Cost more:** Top managements of service firms often hesitate to enhance quality standards with a feeling that it costs more. They also feel that the opportunity cost of employee time also matters when they allocate more time of an employee to each customer. However, these perceptions does not hold true in the case of services. Quality of service can be improved with to incurring additional costs. Japanese firms develop a concept called ZII, elaborated as Zero Investment Improvements. For example, in an airline service office, the customer quality perceptions differ, if nobody notice his presence until the introduce himself, if somebody recognize his presence, if somebody receive him with a welcome wish, or with a wish smile and shake hand, etc. All these changes in performance does not cost the organisation but influence the quality perceptions significantly. It is not possible to improve quality always with the additional cost. Yes, certainly many times

quality performance is related to the cost. But the benefits also would be substantial in the short-run as well as in the long-run. The negligence in quality on cost parameters leads to loss of customers. Therefore organisations should orient themselves for the improvement of the quality.

6. ***Quality Improvement sometimes require Quantum Leaps:*** Service firms should not hesitate to introduce major changes in the organisational set up when such changes provide more quality to the customers. Computerization in nationalized Banks and Insurance companies was initiated by the top management to offer fast and accurate services to the customers. Though, such change requires crores of rupees investment, results in major disturbance in working for some period, employee resentment or adaptability, ears of retrenchment, and other problems, computerization was taken up keeping view the improvement in quality services to the customers. Service firms should prepare for such changes anytime.

7. ***Every one contributes to Customer Perceived Quality:*** All employees in the organisation will contribute for the customer perceived quality. Whether an employee is in interaction with the customer (or) not, whether he is within the line of visibility or not, his contribution would be there in the quality perceptions. In a bank branch, when a customer is in the process of depositing his money, some employees, who are not in interaction with the customer, have suppose picked up quarrel on some work sharing issue, it will have definitely a bad impact on the customer in spite of the fact that he has nothing to do with that incident. Further, if a customer is delayed by the frontline employees due to delay in support services, though contact personnel are positive to the customer, beyond a point of waiting customer gets dissatisfied.

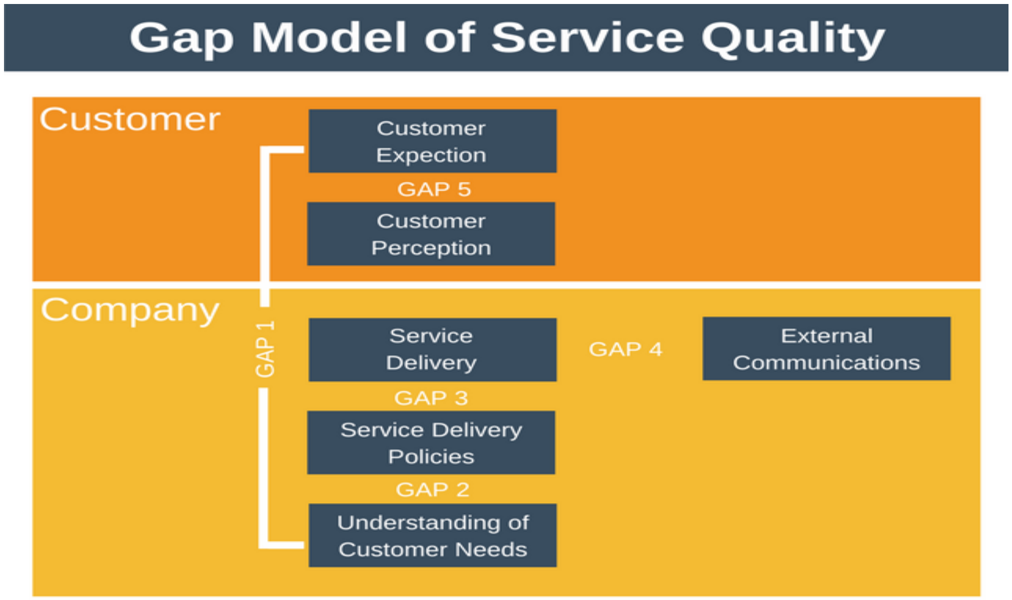
8. **Quality should be monitored by the Employees themselves throughout the Organization:**
In a university college, traditional control mechanism can make a teacher to take classes to the time and leave to the time, but no one can force him to teach well or train well the students. Only the teacher himself should get oriented. Presence of Head or Principal to monitor the teaching may further worsen the situation. Therefore, service firms should keep confidence on their employees and provide such mechanisms to them that provide feedback of their performance. Based on the feedback, employees try to modify their performance and a result quality can be provided to the customers.

Service Quality Issues

Service firms can obtain information through research in service quality. The following are some of the research approaches through which service firms can have useful information on general or specific issues relating to service quality.

1. ***Regular customer surveys:*** Under this approach customer survey is a regular activity. Either census study or sample studies will be conducted on regular intervals.
2. ***Use of consumer panel:*** Consumer panels are constituted with selected customers and specific feedback information will be solicited from them. The panels also will be given freedom to suggest on various issues to the organisation for further improvement.
3. ***Transactional analysis:*** Many times service organisations encounter with grievous customers. With the use of transactional analysis, real reasons for dissatisfaction can be traced and also valuable suggestions can be obtained. However, this approach has a limited application to get information from market, as very few can be interacted through this approach. In the case of employees, this approach is of immense use to unfold the reasons for the problems and to take measures to correct them.
4. ***Perception surveys:*** These surveys are to know the perceptions of the customers on various features of the service and on technical as well as functional quality of the service.
5. ***Mystery shopping:*** This approach is being used by many service providers. The top management of the organisation will personally visit service outlets without revealing their identities either to the customer or to the frontline employees, and observe the ongoing activities. They may interact with customers and also frontline employees to know their experiences and problems and initiate changes immediately.
6. ***Analysis of complaints:*** Consumer complaints are the major source of feedback to the service firms. The complaints received should be classified properly and routed to the right personnel at the right time so as to make them able to initiate corrective measures. The complainants should not be viewed only as a source for compensating the defects in service execution. They should be taken as sources for identifying operational defects. Correction should be institutionalized so as to ensure, nowhere such defect reoccur.
7. ***Employee's research:*** Satisfaction levels of employees should be monitored continuously. Employee's research provides required information to the policy makers to develop such programmes and policies that make the employees satisfied always.
8. ***Similar Industry studies:*** Studies conducted by service firms in the similar businesses also provide some insights over changing trends in the industry.
9. ***Intermediary research:*** Some social organisations, research institutes, universities, trade associations and the like, also conduct research on service quality. The findings of such research studies are useful for the service firms to get market information on service quality.

Service Quality Models



Gap 1: Customer Expectation – Management Perception Gap

It is the inability of top management to perceive what the customer wants, and is the main reason why a firm cannot meet a customer's expectations. The company is blinded by a perceptual veil of ignorance, arrogance or criminal neglect.

Some of the reasons why Gap-1 can occur are:

1.inadequate marketing research;

2. Lack of upward communication in the organisation;

3.Insufficient focus on relationship building ('don't care' attitude), etc.

Gap 2: Management Perception – Service Quality Expectation Gap

This gap is created in the design process of the service product and lying down of specifications for service quality during service transactions. In the design process, this gap arises during the translation of management's perception of customer-expectation into design specifications. Managers would set specifications for service quality on the basis of what they believe the customer requires — a very dangerous presumption. The implications of this gap are that even if the firm has crystal-clear knowledge and understanding of the customer's expectations, there would be scope for misunderstanding this, leading to setting the wrong specifications, service designs and standards.

Example: A bank would believe that customer friendly interaction is what the customers prefer but the standard would be set on computerization — which is impersonal and neutral. There is no human contact to support the concept of 'friendliness'.

Some reasons for Gap-2 to occur are:

1.Failure to connect service design to service positioning

2.Unsystematic new-service development process

3.Lack of customer-defined service standards

4.Absence of a formal process of setting service quality goals, etc.

Gap 3: Service Quality Specifications – Service Delivery Gap

This occurs at the service provider level when there is deviation from service standards specified and actually delivered to the customers. This probably is the bane of all public sector institutions, be they banks, insurance companies, hotels, travel agencies, hospitals or any such. The management's perception and service design standards might be accurate and perfect. But if the interacting service provider during service delivery falls short of the standards specified, the customer will get an impression of a poorly performing firm. This becomes especially important for that firm that is heavily dependent on people in performing the last transaction.

Example: Public sector banks might have the best of design specifications set by Reserve Bank of India; yet late-coming staff, corrupt employees (the Harshad Mehta scam of misuse of Portfolio Management Funds and the internal document mess-up in State Bank of India) would bring large gaps in quality to put it mildly.

Some of the reasons for Gap-3 to occur are:

1. Ineffective recruitment, role ambiguity;

2. Role conflict;

3. Lack of empowerment, control and poor teamwork;

4.Failure to match supply and demand (in a retail store there would be peak crowds during the evenings and slack demand during the afternoons, but the employee strengths would be the same), customers not cooperating or failing to live up to their roles (lack of knowledge and responsibilities); _ Channel conflicts, etc.

The service firm must ensure that systems, processes and people are in the right place. This will make sure that service delivery is as per the design standards set.

Gap 4: Service Delivery – External Communications to Customer

This is essentially a communication gap. An over-hyped communication raises the expectations of the customer – and his benchmark of service quality and his expectations from the service delivery skyrocket. It will be difficult then for the firm to meet the expectation and there would inevitably be a shortfall. The tragedy is the customers would have been satisfied without the hype. But now they go back with memories of disappointment and are actually dissatisfied. This results from inadequate communication from the firm.

Example: Doordarshan, the much-maligned state TV broadcaster, would announce a certain programme, say an interview with Mr. Amitabh Bachchan, to be broadcast at 7 p.m. and they would fail to do so at that hour - creating huge disappointment. The viewers would curse and would not forgive DD despite an apology - even if one were forthcoming.

The causes of Gap-4 are:

1.Lack of cohesiveness in marketing communications;

2.Absence of strong internal marketing programme, not being able to meet customers' expectations through communications;

3.Over-promising in advertising and personal selling;

4.Inadequate horizontal communication between sales and operations;

5.Differences in policies and procedures across branches, etc.

Gap 5. The Customer Gap

Customer Gap is the gap between customer expectations and customer perceptions. This, in other words, is the service quality shortfall as seen by the customers. Customers develop expectations from receipt of external stimuli from many sources – ranging from those that are company-controlled to social influences. These form the bases of his reference-to-come for the service experience. The customer's perceptions indicate the service as actually received, for all practical purposes, since what we perceive is what is real to us. Perceptions are everything.

1. Company-controlled external stimuli are service product/offer, price, advertising, promotions, displays, outlets, etc.
2. Social influences as external stimuli are word of mouth communications and reference groups.
3. Other influencers of expectations are personal needs and past experience of the customer.

SERVQUAL Model

The Service Quality Model or SERVQUAL Model was developed and implemented by the American marketing gurus Valarie Zeithaml, A. Parasuraman and Leonard Berry in 1988. It is a method to capture and measure the service quality experienced by customers.Initially, emphasis was on the development of quality systems in the field product quality. Over time, it became more and more important to improve the quality of related services. Improved service quality could give organisations a competitive edge. In addition, service in general became more important, and as a result, the SERVQUAL Model had a serious impact in the eighties. Back then, measuring service was abstract and not easily quantifiable.

The SERVQUAL Model is primarily a qualitative analysis. If a satisfaction survey mainly depends on the transactions between supplier and buyer, the observed quality is measured through generic, environmental factors.

A Parasuraman et al.: Parasuraman, Valerie Zeithaml and Leonard Berry identified five dimensions with which consumers judge services.

1. ***Reliability:*** The service should be performed with dependability, and as per its promise.
2. ***Responsiveness:*** This concerns the attitude of the service provider to be willing to provide service. It also includes their sensitivity as well as timeliness in responding to customer requests.

3. ***Assurance:*** This relates to the knowledge, skill and competence of the service providers. It also indicates their ability to generate trust and faith, and also capability in service delivery with politeness and consideration.

4. ***Empathy:*** This dimension relates to caring, feeling as well as the ability to give personalised service.

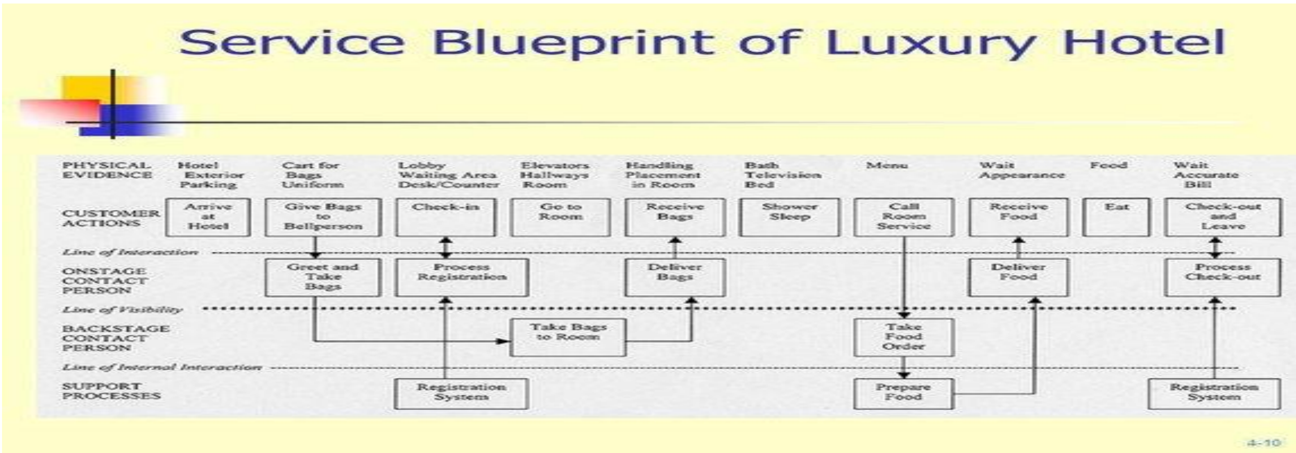
5. ***Tangibles****:* This is a measure of the effectiveness of the physical evidence of the service provider like design layout and facilities.

UNIT -4

SERVICE BLUEPRINT

Service blueprints were first described by Lynn Shostack, a banking executive, back in 1982 in the Harvard Business Review. They've become popularized over the last few years as service design has grown as a profession. In addition to being useful in service design they are often used by operational management to gauge the efficiency of work within an organization.A service blueprint is an operational planning tool that provides guidance on how a service will be provided, specifying the physical evidence, staff actions, and support systems / infrastructure needed to deliver the service across its different channels. For example, to plan how you will loan devices to users, a service blueprint would help determine how this would happen at a service desk, what kinds of maintenance and support activities were needed behind the scenes, how users would learn about what's available, how it would be checked in and out, and by what means users would be trained on how to use the device.Service Blueprints may take different forms – some more graphic than others – but should show the different means/channels through with services are delivered and show the physical evidence of the service, front line staff actions, behind the scene staff actions, and support systems. They are completed using an iterative process – taking a first pass that considers findings from personas, journey maps, and location planning and then coming back to the blueprint to refine it over time. Often blueprints raise questions that cannot be readily answered and so need to be prototyped; for instance by acting out an interaction or mocking up a product. Generally, one blueprint should be created for each core service, according to the right level of detail for each.

BLUE PRINT EXAMPLE:



Physical Evidence: Elements, Types and Role of Physical Evidence in Service Marketing

Elements:

Services being intangible, customers often rely on tangible cues, or physical evidence, to evaluate the service before its purchase and to assess their satisfaction with the service during and after consumption. General elements of physical evidence are shown in Table 9.1. They include all aspects of the organization's physical facility (the services cape) as well as other forms of tangible communication.

Elements of the services cape that affect customers include both exterior attributes (such as parking, landscape) and interior attributes (such as design, layout, equipment, and decor). Physical evidence examples from different service contexts are given in Table 9.2. It is apparent that some services communicate heavily through physical evidence (e.g. hospitals, resorts, child care), while others provide limited physical evidence (e.g. insurance, express mail).

Role of service evidence:

A distinction is made in services marketing between two kinds of physical evidence:

(a) Peripheral evidence;

(b) Essential evidence

(a) Peripheral Evidence:

Peripheral evidence is actually possessed as part of the purchase of a service. It has however little or no independent value. Thus a bank cheque book is of no value unless backed by the funds transfer and storage service it represents.

An admission ticket for a cinema equally has no independent value. It merely confirms the service. It is not a surrogate for it. Peripheral evidence 'adds to' the value of essential evidence only as far as the customer values these symbols of service.

The hotel rooms of many large international hotel groups contain much peripheral evidence like directories, town guides, pens, notepads, welcome gifts, drink packs, soaps and so on. These representations of service must be designed and developed with customer needs in mind. They often provide an important set of complementary items to the essential core service sought by customers.

(b) Essential Evidence:

Essential evidence, unlike peripheral evidence, cannot be possessed by the customer. Nevertheless essential evidence may be so important in its influence on service purchase it may be considered as an element in its own right. The overall appearance and layout of a hotel; the 'feel' of a bank branch; the type of vehicle rented by a car rental company; the type of aircraft used by a carrier are all examples of physical evidence.

Managing the Evidence:

Service organizations with competing service products may use physical evidence to differentiate their service products in the marketplace and give their service products a competitive advantage. A physical product like a car or a camera can be augmented through the use of both tangible and intangible elements.

A car can be given additional tangible features like a sliding roof or stereophonic radio equipment; a camera can be given additional tangible features like control devices which enable use in a wide variety of light conditions.

A car may be sold with a long life antirust warranty or cost- free service for the first year of ownership; a camera with a long-life warranty or free lens insurance. Tangible and intangible elements may be used to augment the essential product offer. In fact organizations marketing tangible dominant products frequently use intangible, abstract elements as part of their communications strategy.

Service marketing organizations also try to use tangible clues to strengthen the meaning of their intangible products.

Make the Service more Tangible:

The bank credit card is an example of the tangible representation of the service, 'credit'. The use of a credit card means:

(a) The service can be separated from the seller;

(b) Intermediaries can be used in distribution thereby expanding the geographic area in which the service marketer can operate;

c) The service product of one bank can be differentiated from the service product of another bank (e.g. through colour, graphics and brand names like Visa).

(d) The card acts as a symbol of status as well as providing a line of credit.

Make the Service Easier to Grasp Mentally:

There are two ways in which a service can be made easier to grasp mentally.

(a) Associate the service with a tangible object which is more easily perceived by the customer.

This approach may be used in advertising messages where the intangible nature of service is transferred into tangible objects representing that service. These may have more significance and meaning for customers. It is easier for the customer to grasp what their service means compared with competitors.

With this approach it is obviously vital to:

(a) Use tangible objects that are considered important by the customer and which are sought as part of the service. Using objects that customers do not value may be counter-productive.

(b) Ensure that the 'promise' implied by these tangible objects in fact is delivered when the service is used. That is, the quality of the goods must live up to the reputation implied by the promise.

If these conditions are not met, then incorrect, meaningless and damaging associations can be created.

(b) Focus on the Buyer-seller Relationship:

This approach focuses on the relationship between the buyer and the seller. The customer is encouraged to identify with a person or group of people in the service organization instead of the intangible services themselves.

Advertising agencies use account executives; market research agencies assemble client teams; the Bank uses 'personal' bankers. All encourage a focus on people performing services rather than upon the services themselves.

However before a service organisation can translate intangibles into more concrete clues it must ensure that it:

(a) Knows precisely its target audience and the effect being sought by the use of such devices.

(b) Has defined the unique selling points which should be incorporated into the service and which meet the needs of the target market.

FRANCHISE

A franchise is a type of license that a party (franchisee) acquires to allow them to have access to a business's (franchisor) proprietary knowledge, processes, and trademarks in order to allow the party to sell a product or provide a service under the business's name. In exchange for gaining the franchise, the franchisee usually pays the franchisor an initial start-up and annual licensing fees.

franchising Is About Systems and Support

Great franchisors provide systems, tools and support so that their franchisees have the ability to live up to the system's brand standards and ensure customer satisfaction. And, franchisors and all of the other franchisees expect that you will independently manage the day-to-day operation of your businesses so that you will enhance the reputation of the company in your market area.

When selecting a franchise system to invest in, you want to evaluate the types of support you will be provided and how well the franchisor is managing the evolution of the products and services so that it keeps up with changing consumer expectations. Some of the more common services that franchisors provide to franchisees include:

A recognized brand name,

Site selection and site development assistance,

Training for you and your management team,

Research and development of new products and services,

Headquarters and field support,

Initial and continuing marketing and advertising.

You want to select a franchisor that routinely and effectively enforces system standards. This is important to you as enforcement of brand standards by the franchisor is meant to protect franchisees from the possible bad acts of other franchisees that share the brand with them. Since customers see franchise systems as a branded chain of operations, great products and services delivered by one franchisee benefits the entire system. The opposite is also true.

Franchising Is also a Contractual Relationship

While from the public's vantage point, franchises look like any other chain of branded businesses, they are very different. In a franchise system, the owner of the brand does not manage and operate the locations that serve consumers their products and services on a day-to-day basis. Serving the consumer is the role and responsibility of the franchisee.

Franchising is a contractual relationship between a licensor (franchisor) and a licensee (franchisee) that allows the business owner to use the licensor's brand and method of doing business to distribute products or services to consumers. While every franchise is a license, not every license is a franchise under the law. Sometimes that can be very confusing.

In the United States, a franchise is a specific type of licensing arrangement defined by the Federal Trade Commission and also by several states. In the United States a franchise generally exists when:

• The franchisor licenses a franchisee the right to use its trade or service mark;

• To identify the franchisee's business in marketing a product or service using the franchisor's operating methods;

• The franchisor provides the franchisee with support and exercises certain controls; and,

• The franchisee pays the franchisor a fee.

The definition of a franchise is not uniform in every state. Some states for example, may also include a marketing plan or community of interest provision in the definition. The definition of what is a franchise can vary significantly under the laws in some states and it is important that you don't simply rely on the federal definition of a franchise in understanding any particular state's requirements.

Put another way, in a franchise a business (the franchisor) licenses its trade name (the brand, such as BrightStar Care or Sport Clips) and its operating methods (its system of doing business) to a person or group operating within a specific territory or location (the franchisee), which agrees to operate its business according to the terms of a contract (the franchising agreement). The franchisor provides the franchisee with franchising leadership and support, and exercises some controls to ensure the franchisee's adherence to brand guidelines.

In exchange, the franchisee usually pays the franchisor a one-time initial fee (the franchise fee) and a continuing fee (known as a royalty) for the use of the franchisor's trade name and operating methods. The franchisee is responsible for the day-to-day management of its independently owned business and benefits or risks loss based on his own performance and capabilities.

Investing in a franchise or becoming a franchisor can be a great opportunity. But before you select any franchise investment and sign any franchise agreement, do your homework, understand what the franchise system is offering and get the support of a qualified franchise lawyer.

Advantages of buying a franchise

- Franchises offer the independence of small business ownership supported by the benefits of a big business network.
- You don't necessarily need business experience to run a franchise. Franchisors usually provide the training you need to operate their business model.
- Franchises have a higher rate of success than start-up businesses.
- You may find it easier to secure finance for a franchise. It may cost less to buy a franchise than start your own business of the same type.
- Franchises often have an established reputation and image, proven management and work practices, access to national advertising and ongoing support.

Disadvantages of buying a franchise

- Buying a franchise means entering into a formal agreement with your franchisor.

- Franchise agreements dictate how you run the business, so there may be little room for creativity.
- There are usually restrictions on where you operate, the products you sell and the suppliers you use.
- Bad performances by other franchisees may affect your franchise's reputation.
- Buying a franchise means ongoing sharing of profit with the franchisor.
- Franchisors do not have to renew an agreement at the end of the franchise term.

Franchising is seen by many as a simple way to go into business for the first time. But franchising is no guarantee of success and the same principles of good management - such as informed decision-making, hard work, time management, having enough money and serving your customers well - still apply.

Be cautious when buying into a franchise if you have to develop the market and the brand in your designated area. Make sure your investment generates healthy returns and a capital gain when you sell.

Distribution services

In all countries, distribution represents a large share of domestic production and employment. The industry is highly dynamic and changing rapidly. There is a trend towards greater oncentration and the rapid development of new forms of competition — for example, through electronic commerce.

Distributions services includes commission agents' services, wholesale trade services, retailing services and franchising.

Distribution is the process of making a product or **service** available for the consumer or business user who needs it. This **can** be done directly by the producer or **service** provider, or using indirect channels with distributors or intermediaries. ... The overall **distribution** channel **should** add value **to** the consumer.

1. customers are active and they must be enticed.
2. Insufficient control of e-environment.
3. Price competition.
4. Inability to customize with highly standardized electronic services.
5. Inconsistency due to customer involvement.
6. Changes needed in consumer behavior.
7. Security concerns.
8. Competition from widening geographies.

1. Customers are active not passive and must be enticed

Traditional advertising media such as magazines **consider the customer a passive receiver of their messages**. A customer reading an article is most likely to see the advertisement. But the user of the web is different.

The aim of advertising should be to educate, entertain and entice the customer. By reading the marketer's information, customer must know the benefits of services clearly. So, "**permission-based marketing**" is a new method used to attract customers to websites. The services firm designs games, offers prizes, creates contests and sends customers to websites. This helps the advertisers build relationships with customers.

2. Lack of control of the electronic equipment

Electronic equipment are used in an **unregulated medium**. Care should be taken to separate the irrelevant, unwanted material from the useful content. For example, advertising for banking services should be separated from the numerous advertisements for '*balding concealment devices*' and '*quick weight loss programmes*'. In print media, the advertiser can request for right positioning. Such requests are not possible on the internet.

3. Price competition

It is **difficult to compare features and price of services**. But the internet makes it simple for customers to compare prices for a wide variety of services. For example, priceline.com allows customers to name their prices for a service such an airline ticket. So, customers at present, have the ability to bid on prices for services. Online services enable customers to download hundreds of service offerings along with particulars. So, the service providers encounter **challenges in the form of price competition**.

4. Inability to customize with highly standardized electronic devices

It is very **difficult to customize the services** by using highly standardized electronic services. When electronic media is present, **customers cannot directly deal with the service provider** and raise points for clarification. The reaction of the audience to the message presented by an electronic vehicle may not always be effective. People may talk among themselves, laugh and criticize. Only two-way video can control the behavior of receivers

5. Inconsistency due to customer involvement

Electronic channels minimize the inconsistency from employees or providers of services. The customer produces the service himself using the technology. While doing so, if the technology is not user friendly, it **may lead to errors or frustration**. Using a website for example is not easy as it calls for familiarity with that technology. Moreover, the difficulty encountered by online services is that most customers do not have computers.

6. Changes are required in consumer behavior

When a consumer enters a retail store, he can be motivated easily to buy the service. It is because the behavior of customer can be studied and the customer interaction can be modified to instill confidence in him. But for a customer purchasing a service through electronic channels, the **method of interaction is different**.

While using electronic channel, considerable changes are required in some aspects – the willingness to search for information, the willingness to perform some aspect of the services themselves, the acceptance of different levels of service, etc. But effecting a behavioral change is not easy. So, service marketers should motivate customers by bringing about changes in the long established pattern of behavior.

7. Security concerns

Security of information is a key issue while using electronic channels. This is the major issue confronting the marketers who use electronic channels. Many customers are reluctant to give credit card numbers on the web and internet.

Recently, Adam Cohen has outlined reasons for customer reluctance to use the internet.

They are:

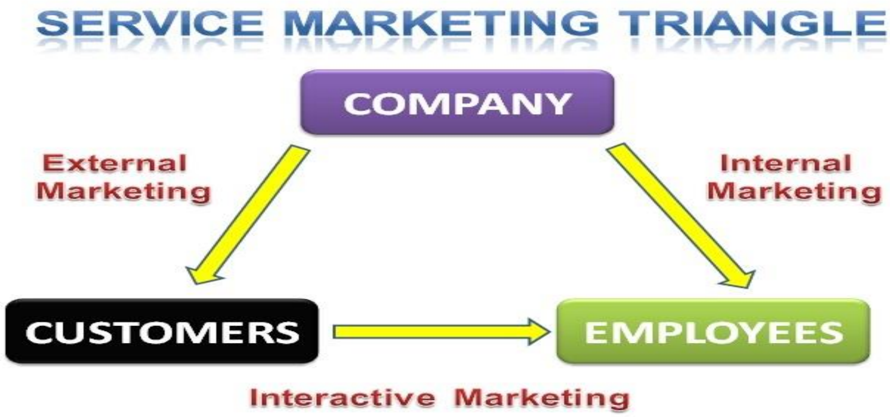
- someone might steal your identity
- you may reveal information about yourself in cyber-space
- personal information that we give to a website might be exploited
- you may enter your credit card number on a fake website
- A stranger may use your computer to spy on you
- you may have a cyber stalker.

8. Global Competition

With the advent of electronic channels, services can be purchased from service firms located anywhere in the world. The fact that services could not be transported is no longer valid because of electronic channels. Virtually, all financial services can be bought from institutions in any area. Since customers have unlimited choice among the providers, **services are not protected from competition**.

CONCEPT OF SERVICE MARKETING TRIANGLE

Services marketing is about promises – promises made and promises kept to customers. A strange framework known as the services triangle visually reinforces the importance of people in the ability of firms to keep their promises and succeed in building customer relationships.



The triangle shows the three interlinked groups that work together to develop, promote and deliver services. These key players on the points of the triangle are: 1. The Employees(or SBU or department or management) 2. The Customers 3. The Providers (employees of the service company, sub-contractors, dealers or outsourced entities who deliver the company's services) Between these three points on the triangle, three types of marketing must be successfully carried out for a service to succeed external marketing, interactive marketing and internal marketing. On the right side of the triangle are the external marketing efforts that the firm engages in to set up its customers' expectations and make promises to customers regarding what is to be delivered. But external marketing is just the beginning for services marketers. Promises made must be kept. On the bottom of the triangle is what has been termed interactive marketing or real-time marketing. Here is where promises are kept or broken by the firm's employees, sub-contractors, or agents. People are critical at this stage. If promises are not kept, customers become dissatisfied and eventually leave. The left side of the triangle suggests the critical role played by internal marketing. The management engages in these activities to aid the providers in their ability to deliver on the service promise: recruiting, training, motivating, rewarding and providing equipment and technology. Unless service employees are able and willing to deliver on the promises made, the firm will not be successful and the services triangle will collapse. All the three sides of the triangle are essential to complete the whole, and the sides of the triangle should be aligned. What is promised through external marketing should be the same as what is delivered. The enabling activities inside the organization should be aligned with what is expected of service providers. Many strategies are available for practice by service marketers for aligning the service triangle.

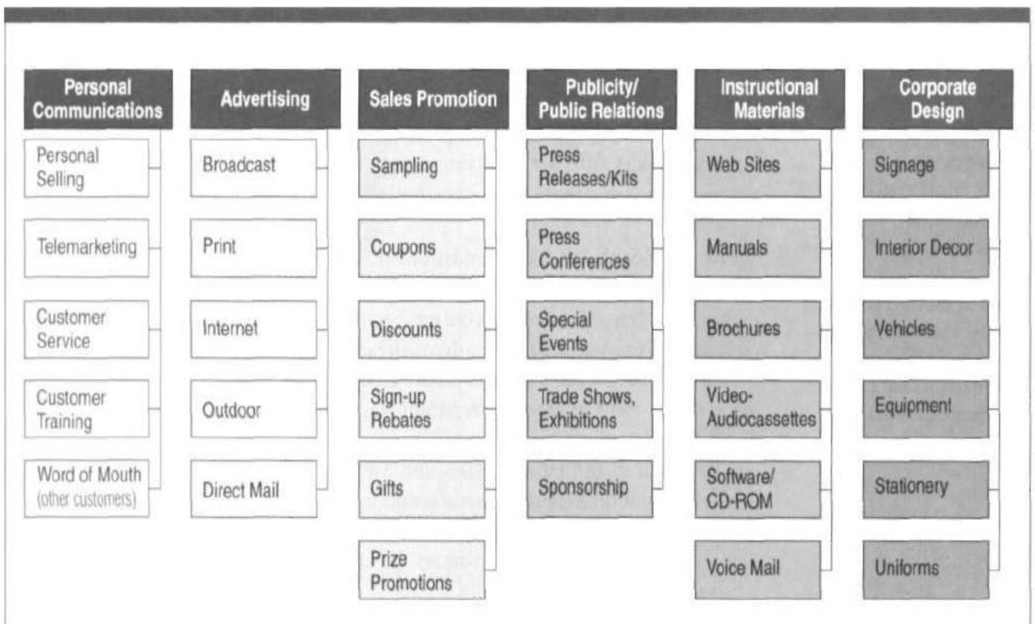
Most service marketers have access to numerous forms of communication, referred to collectively as the marketing communications mix. Different communication elements have distinctive capabilities relative to the types of messages that they can convey and the market segments most likely to be exposed to them. As shown in Figure, the mix includes personal contact, advertising, publicity and public relations, sales promotion, instructional materials, and corporate design.

How should service marketers approach the task of selecting communication elements to convey the desired messages efficiently and effectively to the target audience? In well-planned campaigns, several different communication elements may be used in ways that mutually reinforce each other. Effective sequencing of communications is important, since one element often paves the way for others. For example, advertising may encourage prospects to visit aWeb site, request further information by mail, or shop in a specific store where they will be exposed to retail displays and can interact directly with a salesperson.

Communication Mix and Strategies in Service Marketing

Communication experts draw a broad division between personal communications, involving personalized messages that move in both directions between two parties, and impersonal communications, in which messages move in only one direction and are generally targeted at a large group of customers and prospects rather than at a single individual. However, technology has created a gray area between the two.

It's now very easy for a firm to combine word-processing technology with information from a database to create an impression of personalization. Think about the direct mail and e-mail messages that you have received, containing a personal salutation and perhaps some reference to your specific situation or past use of a particular product



Personal Communications

As shown in Figure, personal communications include personal selling, telemarketing, customer training, customer service, and word of mouth.

Personal Selling Interpersonal encounters in which efforts are made to educate customers and promote preference for a particular brand or product are referred to as personal selling. For infrequently purchased services like property, insurance, and funeral services, the firm's representative may act as a consultant to help buyers make their selections. Because face-to-face selling is usually expensive, it's most often used in business-to-business markets. A lower-cost alternative is telemarketing, involving use of the telephone to reach prospective customers. It's used by about 75 percent of all industrial companies.

Relationship marketing strategies are often based on account management programs, where customers are assigned a designated account manager who acts as an interface between the customer and the supplier. Account management is most commonly practiced in industrial and professional firms that sell relatively complex services, resulting in an ongoing need for advice, education, and consultation. Examples of account management for individual consumers can be found in insurance, investment management, and medical services.

Customer Service Employees in customer service positions are often responsible for delivery of a variety of supplementary services, including providing information, taking reservations, receiving payments, and problem solving. New customers, in particular, often rely on customer service personnel for assistance in learning how to use a service effectively and how to resolve problems.

When several different products are available from the same supplier, firms encourage their customer service staff to cross-sell additional services. However, this approach is likely to fail if strategies are not properly planned and executed. In the banking industry, for example, a highly competitive marketplace and new technologies have forced banks to add more services in an attempt to increase their profitability. In many banks, tellers who traditionally provided customer service are now expected to promote new services to their customers as well. Despite training, many employees feel uncomfortable in this role and don't perform effectively as salespeople.

Customer Training Some companies, especially those selling complex business-to business services, offer formal training courses to familiarize their customers with the service product and teach them how to use it to their best advantage.

Word of Mouth Recommendations from other customers can have a powerful influence on people's decisions to use a service, but word of mouth is a difficult form of communication for firms to control. Some advertisers try to encourage positive comments from customers who have already used a service since positive word of mouth can act as a powerful and highly credible selling agent. In an effort to extend the reach of word of mouth, advertising and brochures sometimes feature comments from satisfied customers.

Research in the United States and Sweden shows that the extent and content of word of mouth is related to satisfaction levels. Customers holding strong views are likely to tell more people about their experiences than those with milder views. And extremely dissatisfied customers tell more people than those who are highly satisfied.

Advertising

As the most dominant form of communication in consumer marketing, advertising is often the first point of contact between service marketers and their customers, serving to build awareness, inform, persuade, and remind. It plays a vital role in providing factual information about services and educating customers about product features and capabilities. To demonstrate this point, Grove, Pickett, and Laband carried out a study comparing newspaper and television advertising for goods and services.

Based on a review of 11,543 television advertisements over a 10-month period and of 30,940 newspaper display advertisements that appeared over a 12-month period, they found that ads for services were significantly more likely than those for goods to contain factual information on price; guarantees/warranties; documentation of performance; and availability (where, when, and how to acquire products).

One of the challenges facing advertisers is how to get their messages noticed. Television and radio broadcasts are cluttered with commercials, while newspapers and magazines sometimes seem to contain more ads than news and features. How cans a firm hope to stand out from the crowd? Longer, louder commercials and bigger format ads are not necessarily the answer.

Some advertisers stand out by using a sharply different format. For its ads in Business Week, where most advertising includes color photography and occupies one or two full pages, Williams Communications employs black-and white cartoons occupying approximately half a page .

A broad array of paid advertising media is available, including broadcast (TV and radio), print (magazines and newspapers), movie theaters, and many types of outdoor media (posters, billboards, electronic message boards, and the exteriors of buses or bicycles). Some media are more focused than others, targeting specific geographic areas or audiences with a particular interest.

Advertising messages delivered through mass media are often reinforced by direct marketing tools like mailings, telemarketing, faxes, or email. Direct marketing, which offers the potential to send personalized messages to highly targeted micro-segments, is most likely to be successful when marketers possess a detailed database of information about customers and prospects

Sales Promotion

A few years ago, SAS International Hotels devised an interesting sales promotion targeted at older customers. If a hotel had vacant rooms, guests over 65 years of age could get a discount equivalent to their years (e.g., a 75-year-old could save 75 percent of the normal room price). All went well until a Swedish guest checked into one of the SAS chain's hotels in Vienna, announced his age as 102, and asked to be paid 2 percent of the room rate in return for staying the night.

This request was granted, whereupon the spry centenarian challenged the general manager to a game of tennis and got that, too. (The results of the game, however, were not disclosed!) Events like these are the stuff of dreams for PR people. In this case, a clever promotion led to a humorous, widely reported story that placed the hotel chain in a favorable light.

A useful way of looking at sales promotions is as a communication attached to an incentive. Sales promotions are usually specific to a time period, price, or customer group sometimes all three, as in the SAS example. Typically, the objective is to accelerate the purchasing decision or motivate customers to use a specific service sooner, in greater volume with each purchase, or more frequently.

Sales promotions for service firms may take such forms as samples, coupons and other discounts, gifts, and competitions with prizes. Used in these forms, sales promotions add value, provide a competitive edge, boost sales during periods when demand would otherwise be weak, speed the introduction and acceptance of new services, and generally get customers to act faster than they would in the absence of any promotional incentive.The Cleanrite coupon shown in Figure is a simple example of a sales promotion designed to encourage past customers to become repeat customers.

Some promotional campaigns are very creative in their appeals to customers. For example, some international airlines provide passengers in first and business classes with free gifts including toiletries, pens, stationery, and playing cards. Gifts are sometimes offered simply to amuse customers and create a friendly environment. The Conrad Hotel in Hong Kong places a small teddy bear on each guest's bed and a yellow rubber duck in the bathroom; it reports that many guests take these items home with them.

Publicity and Public Relations

Public relations (PR) involves efforts to stimulate positive interest in an organization and its products by sending out news releases, holding press conferences, staging special events, and sponsoring newsworthy activities put on by third parties. A basic element in public relations strategy is the preparation and distribution of press releases (including photos and/or videos) that feature stories about the company, its products, and its employees. PR executives also arrange press conferences and distribute press kits when they feel a story is especially newsworthy. A key task performed by corporate PR specialists is to teach senior managers how to present themselves well at news conferences or in radio and television interviews.

Other widely used PR techniques include recognition and reward programs, obtaining testimonials from public figures, community involvement and support, fundraising, and obtaining favorable publicity for the organization through special events and pro bono work. These tools can help a service organization build its reputation and credibility; form strong relationships with its employees, customers, and the community; and secure an image conducive to business success.

Firms can also win wide exposure through sponsorship of sporting events and other high-profile activities where banners, decals, and other visual displays provide continuing repetition of the corporate name and symbol. For example, the U.S. Postal Service (USPS) was a major sponsor of the U.S. cycling team in the 2000 Tour de France.

This provided many PR and advertising opportunities for the Postal Service including stamps, print articles, television news clips, and photos of the team members with "U.S. Postal Service" prominently displayed on their jerseys. USPS gained worldwide attention when team member Lance Armstrong won the Tour de France after a near-fatal battle with cancer.

Unusual activities can present an opportunity to promote a company's expertise. FedEx gained significant favorable publicity in December 2000 when it safely transported two giant pandas from Chengdu, China, to the National Zoo in Washington, D.C. The pandas flew in specially designed containers aboard an MD 11 aircraft renamed "FedEx PandaOne." In addition to press releases, the company also featured information about the unusual shipment on a special page in its Web site (Figure).

In the business-to-business marketplace, trade shows are a popular form of publicity. They are not usually open to the public, and there is no entry fee. In many industries, trade shows are a great opportunity for business customers to find out about the latest products in their fields. Service vendors provide physical evidence in the form of exhibits, samples and demonstrations, and brochures to educate and impress these potential customers. For example, cosmetic surgeons from around the world attended

Trade shows to learn about advances in technology and equipment that will allow them to perform highly effective no surgical treatments with mysterious names like "botox," "vein sclerotherapy," and "collagen replacement therapy." Trade shows can be very profitable promotional tools. Fifty percent of the sales leads generated at these shows can be closed with just one sales call a much higher percentage than for leads generated in any other way. And a sales representative who usually reaches four to five prospective clients per day can average five qualified leads per hour at a show.

ENTREPRENEURSHIP DEVELOPMENT (307)

UNIT – 1

Introduction

Entrepreneurial development today has become very significant; in view of its being a key to economic development. The objectives of industrial development, regional growth, and employment generation depend upon entrepreneurial development.

Entrepreneurs are, thus, the seeds of industrial development and the fruits of industrial development are greater employment opportunities to unemployed youth, increase in per capita income, higher standard of living and increased individual saving, revenue to the government in the form of income tax, sales tax, export duties, import duties, and balanced regional development.

Meaning & definition of Entrepreneur

The word “entrepreneur” is derived from the French verb enterprendre, which means ‘to undertake’. This refers to those who “undertake” the risk of new enterprises. An enterprise is created by an entrepreneur. The process of creation is called “entrepreneurship”.

There was various definition of entrepreneur.

According to America heritage dictionary;
“Entrepreneur is a person who organizes operates and assumes the risk for business venture”

According to encyclopedia Britannica
“Entrepreneur as the individual who bears the risk of operating a business in the face of uncertainty about future condition and who is rewarded accordingly by his profit or losses”.

Richard Cotillion says
“Entrepreneur is the agent who purchased the means of production for combination into marketable product”.

So we can say that entrepreneur a person who takes risk for establishing a new venture or business in order to create utility for the welfare of human being as well as for him of herself. She or he is always a person who seeks out opportunities and takes on challenges.

Meaning and Definition of Entrepreneurship:
Entrepreneurship is considered as of assuming the risk of an entrepreneur.

According to Natheal H. Leff:
Entrepreneurship is the capacity for innovation investment and expansion in new markets product and techniques.

Webster highlights entrepreneurship as economic venture organizing and risk taking capabilities.

Joseph A Schumpeter describe entrepreneurship is the force of creative destruction whereby established way of doing things are destroyed by the creating of new and better ways to get things done.

According to S. S. Kanaka:
Entrepreneurships is a process involving various actions to be taken to establish an enterprise.

Entrepreneurship is a process of actions of an entrepreneur who is a person always in search of something new and exploits such ideas into gainful opportunities by accepting the risk and uncertainty with the enterprise.

From the functional view point entrepreneurship is defined as the combination of activities such as perception of market opportunities gaining command over scarce resources purchasing input producing and marketing of product responding to competition and maintaining relation with political administration and public bureaucracy for concession licenses and taxes etc.

Characteristics of an entrepreneur:
An entrepreneur is a person who initiates a business venture. there are some essential feature of an entrepreneur which are describe below.

· Risk taking capability: every business has risk of time money etc .so an entrepreneur must have the risk taking capability.

· Creativity and innovation: an entrepreneur has an initiator possesses creativity and innovative power.

· Need for achievement: the entrepreneur has strong desire to achieve the goal of business. he is always driven by the needs for achievement.

· Need for autonomy: an entrepreneur does not like to be under anybody. it is the need for autonomy which drives a person to be an entrepreneur.

· Internal locus of control: an entrepreneur believes in him his work.

· External locus of control: he also believes in fate for ultimate result.

· Self confident: an entrepreneur has confidence in him.

· Leadership capability: an entrepreneur must have leadership capability to lead works under him

· Industriousness: a successful entrepreneur must have leadership capability to lead workers working under him.

· Decision making capability: the entrepreneur has capability to take quick decision

· Adaptability: he has the capacity to adapt with any kind of situation that arise in the enterprise

· Foresightness: The entrepreneurs have a good foresight to know about future business environment.

· Others; the other feature are dynamism, ambition, education and training, long term involvement, future orientation.

Qualities of successful entrepreneur:

To become a successful as an entrepreneur in its business life, a businessman should possess a quite a number of essential qualities. Those are noted below:

1. Moderate risk taking: an entrepreneur always takes calculated risk to operate the organization
2. Hard work: an entrepreneur is very much hard worker, he or she always busy with various types work.
3. Accountability: a successful entrepreneur is accountable well as his associates always accountable to him.
4. Educated in real sense: successful entrepreneur is educated In real sense .he tries to implement his organizational objectives through his education.
5. Analytical mind: a successful entrepreneur is analytical minded. he scrutinizes every activity on the organization.
6. Dynamic leadership: a successful entrepreneur is always dynamic to operate the organization
7. Presence of mind: a successful entrepreneur is always at present of mind he is always aware of activities that to happening in the organization and around him
8. Accommodative: a good entrepreneur has the capacity to make his own place at every sector
9. Courageous and tactful: Corsages and techniques is very much essential for a successful entrepreneur
10. Maker of right decision: A successful entrepreneur makes right decision in right time in right place
11. Foresighted: a successful entrepreneur foresights the future and take decision accordingly
12. Right perception of things: A successful entrepreneur things in a right way
13. Enjoy simple life: A successful entrepreneur always deals a simple life a general people of the society
14. Strong desired to success: A successful entrepreneur have a strong desire to success. he is driven by the desire to success
15. Innovation: innovation is the process of making new something. A successful entrepreneur is innovative
16. Self confidence: A successful entrepreneur is self confidence. does not really on other for decision or fate
17. Goal setting: a successful entrepreneur set the goal

18. Keen observation: A successful entrepreneur always observes the origination
19. Sociable: A successful entrepreneur is sociable person
20. Loves to work; A successful entrepreneur is very much addicted to work
21. Loves new ideas: A successful entrepreneur loves new ides of the organization
22. Team builder: A successful entrepreneur builds a suitable team
23. Clean understanding: A successful entrepreneur clearly understands every things
24. Ability to conceptualize: A successful entrepreneur is able to conceptualize the reality
25. Others: the other qualities are patience, optimistic ,strategist, etc

Relationship between entrepreneur and entrepreneurship:

The relationship between entrepreneur and entrepreneurship are discussed below:

Entrepreneur
vs
Entrepreneurship

1) Entrepreneur is a person. Entrepreneurship is a process.
2) Entrepreneur is an organizer. Entrepreneurship is an organization.
3) Entrepreneur is an innovator. Entrepreneurship is an innovation.
4) Entrepreneur is a risk bearer. Entrepreneur is a risk bearing.
5) Entrepreneur is a motivator. Entrepreneur is a motivation.
6) Entrepreneur is a creator. Entrepreneur is a creation.

Entrepreneur is a visualizer. Entrepreneur is a vision. Entrepreneur is a leader. Entrepreneurship is a leadership.

Entrepreneur is an imitator. Entrepreneurship is an imitation.

Distinction between an entrepreneur and a manager.

Sometimes the word entrepreneur and manager are used as synonyms. In fact there are some differences between them. They are described below –

Subject matter ------------ Entrepreneur ------------ Manager

1. Motive

Thinking function. His main motive is to start a new venture by setting up an enterprise. Doing function. His main motive is to render service to the organization already established.

2. Status

Entrepreneur is the owner of the enterprise.
Manager is the service holder or servant of the enterprise.

3. Risk bearing

Being owner of the enterprise assume all risk and uncertainty involved in the enterprise. As the servant don't take or bear risk and uncertainty involved in the organization.

4. Reward

Reward is profit which is highly uncertain.
Get salary as a reward which is fixed and certain.

5. Innovation

An entrepreneur is an innovator.
A manager is not an innovator in that sense he implements the plan prepared by the entrepreneur.

6. Qualification

They are not highly qualified but have extraordinary experience forecasting. They are highly qualified (institutional education).
After the above discussion we can say that at a time an entrepreneur can be a manager but a manager cannot be an entrepreneur.

Different types of entrepreneurs:

On the basis of nature Clarence Danhof classified entrepreneurs into four categories. These are
– 1. Innovative entrepreneurs: An innovative entrepreneur in one, who introduces new goods, inaugurates new method of production, discovers new market and recognizes the enterprise. It is important to note that such entrepreneurs can work only when a certain level of development is already achieved and people look forward to change and improvement.

2. Imitative entrepreneurs: These types of entrepreneurs creatively imitate the innovative technical achievement made by another firm. Imitative entrepreneurs are suitable for underdeveloped countries as it is hard for them to bear the high cost of innovation.

3. Fabian entrepreneurs: Fabian entrepreneurs are characterized by very great caution and skepticism to experiment any change in their enterprises. They usually do not take any new challenge. They imitate only when it becomes perfectly clear that failure to do not so would result in a loss of the relative position in the enterprise.

4. Drone entrepreneurs: They are characterized by a refusal to adopt any change even at cost of severely reduction of profit.

Some other types of entrepreneurs:

(i) Solo operators: These are the entrepreneurs who essentially work alone and if needed at all employ a few employees. In the beginning most of the entrepreneurs start their enterprises like them.

(ii) Active partners: Active partners are those entrepreneurs who start or carry on an enterprise as a joint venture. It is important that all of them actively participate in the operations of the business.

(iii) Innovators: Such entrepreneurs with their competence and creativity innovate new products. Their basic interest lies in research and innovative activities.

(iv) Buyers' entrepreneurs: These are the entrepreneurs who do not like to bear much risk. They do not take the risk of production but take the risk of marketing a product i.e. wholesaler and retailer.

(v) Life timers: These entrepreneurs believe business as an integral part of their life. These entrepreneurs actually inherit their family business i.e. goldsmith, potter etc.

(vi) Challengers: These are the entrepreneurs who initiate business because of the challenges it presents. They believe that 'No risk, No gain'. When one challenge seems to be met, they begin to look for new challenges.

Beside these, there are Govt. and Non-govt. entrepreneurs.

Factors of Entrepreneurship development:

(A) Personal factors

- Ability to cope with the situation
- Age
- Education
- Personality
- Intrapersonal communication ability
- Achievement motivation
- Self-confidence
- Competence
- Emotion
- Understanding capacity

(B) Environmental factors

1. Socio-cultural factors

- Religion
- Values
- Rural-urban orientation
- Marginality
- Education
- Tradition

. Political and legal factors

- Govt. legal bindings
- Govt. policies
- Rules and laws related to the industry and business

(C) Institutional factors:

- Financial institution
- Training and development institution
- Consulting firms
- Incubators organization (old & pioneer)
- Research organization

(D) Micro factors

- Enterprise itself
- Suppliers
- Intermediaries
- Customers
- Competitors
- Public

(E) Macro factors:

- Demographic factors
- Economic factors
- Physical factors
- Technological factors
- Cultural/social factors

(F) Others:

- Venture capital
- Experience entrepreneurs
- Technically skilled labor force
- Supplier's accessibility
- Proximity to universities
- Availability of land facilities

- Accessibility of transportation
- Favorable loan and financial policies
- Decepted population
- Availability of supportive
- Attractive living condition
- Capital intensiveness
- Research and development activities
- Capital incentive ness

Proximity to corporate head quarters

- Competitive situation

Causes of success and failure of entrepreneur:

An entrepreneur may sometime become successful and sometime becomes failure. There are some causes of such success and failure. They are noted below:

1. Selection of business: It is an important aspect. That means an entrepreneur has to determine what type business he is going to start. Form various points of view the feasibility of the business should be tested.

2. Proper planning: Proper planning me s also important. For planning, planning premises like political, economic, social premised should be considered first. The steps of planning should be followed properly.

3. Initial capital: if the initial capitals are not an optimal level the organization would fall. So whether the enterprise is big or small the initial capital should be sufficient enough.

4. Determination o0f market demand: Through research the demand in the market should be identified. Both for long term and short term it should be considered.

5. Marketing of product: If the promotion policy, channel of destitution, transportation is not good the enterprise would fall.

6. Education and experience: One of the important tasks of the entrepreneurs is to select right person for the right post because the success of an enterprise depends on the right selection of employees.

7. Joint initiative: One may have much money and another may have more merit. Through joint initiative it can be balanced. But sometime for joint initiative misunderstanding arise, or sometimes corruption occur which may result in fall of enterprise.

8. Employment: Recruitment and appointment should be properly done. Those who have specialized skill should be appointed to that specialized job. Inefficient, corrupted employees may be responsible for fall of business.

9. Location of business: Site selection is an important factor. While starting a new business, an entrepreneur should think about the location of the business. In this case, many factors should be considered such as availability of raw materials, proper communication system, availability of labor, marketing facilities and so on.

10. Qualities of management: The management must have a minimum quality to success otherwise it would fall.

These are the common causes for which one enterprise may become successful and another may fall.

Emergence of Entrepreneurial Class

Environmental changes in the economy have led to the emergence of a new entrepreneurial class or business entrepreneurship. Their functions and role have undergone significant changes. In earlier days, entrepreneurship was regarded as individual responsibility and after some time it assumed collective responsibility. At present, the entrepreneurship is oriented towards the whole economy and the nation. We can understand the emerging form of business entrepreneurship with the help of the following points:

1. Commercial Entrepreneurship

The first time, this word was used in the 18th century in the French economy. The French economist, Richard Cantillon used this word when he observed that the businessmen of his country were selling their respective products in a limited market and at an uncertain price. He also observed the qualities of initiation, capacity to take risks and patience, in them. The French authors made a distinction between employers and the entrepreneurship. The role of entrepreneurs also has gone on changing with economic development. Initially, it was individualistic, then it became collective and now it has become industry and nation oriented. Its concept and functions are on changing the path, due to industrialization.

2. Industrial Entrepreneurship

The industrial revolution, technological developments, advertisements in the means of transportation and communications and non-interference by the State in business has resulted in the changes in nature, functions, and roles of entrepreneurship. The importance of the entrepreneurs is being accepted for the promotion and establishment of the industries. Now, the entrepreneur is being recognized as the promoter, coordinator, organizer of the enterprises and as the risk taker. There was no difference between the entrepreneur and the capitalist because the nature of the business was quite simple. In those days, most of the business activities were economical and commercial, except for manufacturing activities. The economists started thinking in terms of economic class and its nature, as a result of the emergence of companies in the business world and giving more emphasis on organization. “How the businessmen perform the functions of the entrepreneurial class, takes the risks, assemble capital and labour, prepare the general outline of the business and observe even the minute details”. They are the persons who make the forecasts and take care of the inlet and outlet of the commodities. They also search markets of consumption, keep knowledge about the employees and also of the whole business. Now, the time has changed. the industrial revolution, development of the means of transportation and communication, increased technical knowledge and state interference in business, etc. have brought several types of changes in the nature of the entrepreneurial class.

3. Innovating Entrepreneurship

The production and distribution of commodities and services, on large scale and rapid advancements in science and technology put emphasis on research and investigations. Increasing competition in the economy and business on the international level is due to globalization, economic liberalization, privatization, corporatization, customer orientation of marketing activities, mounting production, etc. All are the offshoots of the industrial revolution and these phenomena have widely increased the necessity and importance of the entrepreneurial class. The success of business in growing economies, so it has become essential that the products and their qualities be improved by improving production techniques. Economies in the cost of production may also be ensured. consumer satisfaction is to be achieved and efficiencies are increased at all levels, through various types of innovations, so that the enterprise may sustain the growing challenges of competition, the sale of products in high quantities. It will result in success in the business. In developed economies, the business cannot sustain without introducing innovations. The person or group of persons responsible for such innovations have been termed as innovating entrepreneur and his ability on this account is known as innovating entrepreneurship. It is not essential that the owner of wealth be also an entrepreneur. To be an entrepreneur, leadership is required more than ownership. He has differentiated, outlook than the traditional entrepreneurs who carry out only one type of production and the innovating entrepreneurs, who make production on the basis of new techniques, search new markets and establish the new organization. The innovating entrepreneurs create new demand, reduces the prices and bring changes in the position of traditional economic equilibrium. Such type of entrepreneurial class maintains circular flow in the economy and earn more profits by making contributions in the process of development.

The entrepreneur should have three qualities,

1. Knowledge of innovations
2. Incorporations of innovations,
3. Achieving success by use of innovations.

The unique feature of review is that the entrepreneur is not much influenced by the environment. Rather, he aspires for achieving his own business empire, by being influenced by his own tendencies and he also desires to have the family hold on his business empire and also the feelings of being higher than others.

The arguments are based on the assumption that high business knowledge and human capabilities are confined only to selected persons and families, belonging to higher strata.

Such thoughts should have emerged due to the reason that in those days the persons who invented new things earned money by adopting the innovations.

The entrepreneur does not emerge from poor strata. Strong persons with sharp intelligence and abilities exist in the whole society and in all ages. Due to favorable or unfavorable circumstances, some go ahead and some lag behind.

In the foreign ruled countries, the emergence of entrepreneurs has been relatively low, due to adverse circumstances. In Japan, a good number of entrepreneurs have emerged only from the lower strata.

But, the thoughts about the quality for development of the entrepreneurs are always relevant.

Conclusion

Thus, the emergence of the entrepreneurial class has been due to the circumstances and favorable business environment. Now, the entrepreneur emerges only from high classes has completely vanished. Although the entrepreneurs may belong to high families, they may be developed also following are the causes of the development of the entrepreneurial class.

Theories of Entrepreneurship

1. Schumpeter’s Theory of Innovation:

Joseph Schumpeter propounded the well-known innovative theory of entrepreneurship. Schumpeter takes the case of a capitalist closed economy which is in stationary equilibrium. He believed that entrepreneurs disturb the stationary circular flow of the economy by introducing an innovation and takes the economy to a new level of development. The activities of the entrepreneurs represent a situation of disequilibrium as their activities break the routine circular flow.

Innovations of entrepreneurs are responsible for the rapid economic development of any country. Talking about innovation, he referred to new combinations of the factors of production, Schumpeter had assigned the role of innovator to the entrepreneur, who is not a man of ordinary managerial ability, but one who introduces something entirely new.

Innovation could involve any of the following:

i. Innovation of new products.
ii. Innovation in novel methods or processes of production.
iii. The opening up of a new market.
iv. Entrepreneurs might find new source of supply of raw materials
v. Innovation in management. This means reorganization of an industry.

Let us try to understand the meaning of different facets of the term innovation.
The introduction of new product means the product which the consumers have not seen and is of a new and better quality and utility. A new method of production refers to a novel process not yet been used in manufacturing and commercial production. This may increase the productivity and lower cost of production.
The discovery of a new market means a new market which may have existed before but was not entered by the enterprise for commercial purposes. A new source of raw material similarly refers to a source or a place which has not been commercially exploited by the enterprises before. Innovation in management refers to reorganization and reconciliation of the position of the enterprise in the industry by building a monopoly like control or dismantling existing monopoly of others in the industry.

Schumpeter was very explicit about the economic function of the entrepreneur, whom he considered as the prime mover in economic development and the entrepreneur's task is to innovate or carry out new combinations. Schumpeter had differentiated between invention and innovation. We should understand that invention refers to creation of new materials and innovation refers to application of new materials into practical use in industry. Similarly, there is a distinction between an innovator and an inventor. The inventor is the one who invents new materials and new methods. On the other hand, the innovator is the one who utilizes these inventions and discoveries in order to make new combinations.

Bringing about innovations is the main task of the entrepreneur and not the maintenance of the enterprise. Entrepreneurs dream and have a willingness to establish a private kingdom. They enjoy creating and getting things done. These "innovating entrepreneur" has played an important role in the rise of modem capitalism.

Criticisms:

Schumpeter's theory has been subjected to the following criticisms:

i. Critics feel that the theory over emphasized on innovative functions of the entrepreneur. It ignored the organizing aspects of entrepreneurship.
ii. Schumpeter had completely ignored the risk-taking function of the entrepreneur, which cannot be ignored. Whenever an entrepreneur develops a new combination of factors of production, there is enough risk involved.
iii. The theory is more applicable in developed countries only. In developing countries there is a paucity of innovative entrepreneurs.
iv. The theory does not provide the explanation as to why few countries have more entrepreneurship talent than others.

Despite of all the above criticisms Schumpeter's theory is considered as a landmark in the expansion of entrepreneurship theories.

2. Need for Achievement Theory of McClelland

According to McClelland the characteristics of entrepreneur has two features – first doing things in a new and better way and second decision making under uncertainty. McClelland emphasizes achievement orientation as most important factor for entrepreneurs. Individuals with high. Achievement orientation is not influenced by considerations of money or any other external incentives. Profit and incentives are merely yardsticks of measurement of success of entrepreneurs with high achievement orientation. People with high achievement are not influenced by money rewards as compared to people with low achievement. The latter types are prepared to work harder for money or such other external incentives. On the contrary, profit is merely a measure of success and competency for people with high achievement need. Professor David McClelland, in his book

The Achieving Society, has propounded a theory based on his research that entrepreneurship ultimately depends on motivation. It is the need for achievement, the sense of doing and getting things done, that promote entrepreneurship. According to him, N- Ach is a relatively stable personality characteristic rooted in experiences in middle childhood through family socialization and child-learning practices which stress standards of excellence, material warmth, self-reliance training and 30 low father dominance.

According to David McClelland, regardless of culture or gender, people are driven by three motives:

- Achievement,
- Affiliation
- Power

Need for Achievement

A drive to excel, advance and grow. The need for achievement is characterized by the wish to take responsibility for finding solutions to problems, master complex tasks, set goals, get feedback on level of success.

Need for Affiliation

A drive for friendly and close inter-personal relationships. The need for affiliation is characterized by a desire to belong, an enjoyment of teamwork, a concern about interpersonal relationships, and a need reduce uncertainty.

Need for Power

A drive to dominate or influence others and situations. The need for power is characterized by a drive to control and influence others, a need to win arguments, a need to persuade and prevail.

McClelland found that certain societies tended to produce a large percentage of people with high achievement. He pointed out that individuals, indeed whole societies that possess N-ach will have higher levels of economic well-being than those that do not. McClelland's work indicated that there are five major components to the N-ach trait: (a) responsibility for problem solving, (b) setting goals, (c) reaching goals through one's own effort, (d) the need for and use of feedback, and (e) a preference for moderate levels of risk-taking. The individual with high levels of need achievement is a potential entrepreneur. The specific characteristics of a high achiever (entrepreneur) can be summarized as follows:

(i) They set moderate realistic and attainable goals for them.

(ii) They take calculated risks.

(iii) They prefer situations wherein they can take personal responsibility for solving problems.

(iv) They need concrete feedback on how well they are doing.

(v) Their need for achievement exist not merely for the sake of economic rewards or social recognition rather personal accomplishment is intrinsically more satisfying to them.

According to McClelland, motivation, abilities and congenial environment, all combine to promote entrepreneurship. Since entrepreneurial motivation and abilities are long run sociological issues; he opined it is better to make political, Social and economic environments congenial for the growth of entrepreneurship in underdeveloped and developing countries.

3. Max Weber's Theory of Social Change (Emphasis on Impact of Religion):

Max Weber advocated a sociological explanation for the growth of entrepreneurship in his theory of social change. He felt that religion had a profound influence on the growth of entrepreneurship. The religious belief and ethical value associated with the society plays a vital role in determining the entrepreneurial culture.

Max Weber opined that the entrepreneurial energies of a society are exogenously generated and supplied by religious believes. Some religions profess the basic values to earn and acquire money whereas some religions put less emphasis on it. In order to understand the gist of Max Weber's theory we need to understand few fundamental points of the theory.

In his theory spirit of capitalism is a fundamental concept. Capitalism refers to the economic system where market forces of demand and supply are allowed to play freely. As economic freedom and private enterprises are promoted in capitalism, the entrepreneurism is eulogized and entrepreneurial pursuits are encouraged. Spirit of capitalism promotes the entrepreneurs to engage in entrepreneurial pursuits and earn more and more profits.

The urge to acquire money and profits drives the individuals to become entrepreneurs. The spirit of capitalism will be widespread in the society that favours capitalism. Another associated concept was that of adventurous spirit which refers to the impulsive force that influences and promotes entrepreneurism. Weber felt that the belief systems of Hinduism didn't encourage entrepreneurship.

Hinduism laid less emphasis on wealth accumulation, and material life. The Hinduism didn't profess the spirit of capitalism and was thus an obstacle in the promotion of entrepreneurship. Weber was of the opinion that the Protestant ethic provided the mental attitude in a society that promotes spirit of capitalism and favours entrepreneurship.

The rate of industrial growth depends upon the values professed by the religion of the society. The Protestants had advanced at a faster rate in establishing capitalism in Europe owing to the value system professed by Protestant ethic. Protestant ethic granted them the rational economic attitude, accumulating assets, and permitted them to take pleasure in the material life.

Criticisms:

Max Weber had tried and made a commendable contribution in explaining the growth of entrepreneurship.

But, his theory has been challenged and criticized by many researchers and scholars on the following grounds:

i. The theory is based on unrealistic and invalid assumptions.

ii. The theory has been found empirically invalid.

iii. Max Weber has been criticized by many sociologists on his view on Hinduism and entrepreneurship. The rapid expansion of entrepreneurship in India in the post-independence period disproves that Hinduism is averse to the spirit of capitalism and to adventurous spirit.

iv. The views on Protestant ethic were also not completely correct. Capitalism has flourished in regions where Protestant ethic is not present.

4. The Uncertainty-Bearing Theory of Knight:

Frank H. Knight (1957) in his book Risk, Uncertainty and Profit regards profit of the entrepreneur as the reward of bearing non-insurable risks and uncertainties. Entrepreneurship is genuinely associated with risk bearing. Knight had distinguished risk into insurable risks and non-insurable risks.

Let us try to understand the underling concept of risks.

There are certain risks that are measurable and the probability of such risk can be statistically estimated and hence such risks can be insured. Example of insurable risks include theft of commodities, fire in the enterprise, accidental death etc. On the other hand, there are certain risks which cannot be calculated.

The probability of their occurrence cannot be statistically ascertained. Such risks include risks associated to changes in prices, demand and supply. These risks are non-insurable. Prof. Knight opined that the profit is the reward for bearing the non-insurable risks and uncertainties.

Uncertainty-bearing is one of the most vital functions in a dynamic economy. The entrepreneur bears the uncertainty involved in the enterprise. The expectation of profit is the supply price of the entrepreneurial uncertainty bearing exercise. In a state of economy (competitive) where there is no risk, every entrepreneur will have a minimum supply price.

If the reward allocated to the entrepreneur is below it, the entrepreneurs will abstain from providing their entrepreneurial services. The existence of uncertainty tends to raise the minimum supply price. The entrepreneurs expect a level of profit for bearing the uncertainty.

The salient points of Knight's theory include:

i. According to the theory, the entrepreneur earns pure profits for bearing the uncertainty.

ii. The probability of uncertainty or non-insurable risks cannot be statistically estimated.

iii. Entrepreneurs undertake risks of varying degrees according to their ability ad inclination. The theory suggests that the more risky the nature of enterprise, the higher level of profit earned by the entrepreneurs.

iv. Profit is the reward of the entrepreneur for bearing uncertainties and risks. Hence, it should be a part of the normal cost.

v. The reward of the entrepreneur is uncertain. Entrepreneur guarantees interest to lender of capital, wages to workers and rent to the landlord.

vi. The level of uncertainty in business can be reduced by applying the technique of consolidation. The total level of uncertainty can be reduced by pooling individual instances. Criticisms:

F.H. Knight's theory is one of the most sophisticated theories to explain supply of entrepreneurship based on profit. But, the theory suffers from certain drawbacks as pointed by the critics.

i. The role of an entrepreneur has not been elaborately provided by the theory. The entrepreneur's activity has been restricted to uncertainty bearing. Modern business activities are different. Often, there is a dichotomy between ownership and management. These factors have not been taken into consideration.

ii. The uncertainty-bearing theory discussed the concept of profit in a vague way. The exact estimation of profit for the entrepreneur has not been provided in the theory.

iii. Profit as a residual income of the entrepreneur has been criticized.

iv. Critics feel that uncertainty-bearing should not be treated like other factors of production like land, labour and capital. It is a psychological concept and should be treated in a different manner.

5. Theory of Frank Young (Emphasis on Changes in Group Level Pattern):

A Micro-sociological interpretation of entrepreneurship as coined for the theory propounded by Frank Young emphasizes that the entrepreneurial initiatives are conditioned by group level pattern. Young rejected the psychogenic interpretations of entrepreneurship. He considered the solidarity groups responsible for building entrepreneurship.

We shall try to understand his theory by studying the various specific elements attached to this theory.

Frank Young opined that the entrepreneurial characteristics are observed in clusters, ethnic groups, occupational groups and groups with political orientation. Entrepreneurism at the individual level is the manifestation of the group level pattern. Young disapproves the notion of an entrepreneur working individually. The entrepreneur functions as a member of a group.

The entrepreneurial initiatives and actions are the outcome of the experiences and exposures of an individual entrepreneur as a member of a particular group, the family background of the entrepreneur and the manifestation of the general values of the group. The economic problems faced by the individual entrepreneurs are mitigated by the solidarity of entrepreneurial groups. The individual entrepreneurs enjoy the confidence of their association with the solidarity groups which help the individual entrepreneurs to overcome any sort of economic problems.

Frank Young deduced the group level pattern behaviour exhibited by the entrepreneurs on the basis of his test known as Thematic Appreciation Test (TAT) on groups of entrepreneurs.
The Young's theory includes the idea of reactive subgroups. These reactive sub-groups play an important role in enterprise creation. The reactive groups crop up whenever a group experiences low status recognition, limited or no access to social networks and have better institutional resources as compared to other groups in the society at the same level.

6. Economic Theory of Entrepreneurship:

G.F. Papanek (1962) and J.R. Harris (1970) were of the view that economic incentive is the main factor that influences entrepreneurial activities. Economic gains spontaneously develop the willingness among the entrepreneurs to undertake diverse entrepreneurial initiatives. The relationship between an individual's inner urge and the desired economic gains has a profound influence in the development of entrepreneurial competencies. Entrepreneurship development and economic growth takes place whenever certain economic conditions are favourable.

7. Mark Casson Theory (Economic Theory):

Mark Casson's theory is an original synthesis of other approaches. Mark Casson in his book 'The entrepreneur-An Economic Theory', published in 1982, talks about the entrepreneur. According to Mark Casson the Entrepreneur might be a property developer, a small businessman or just someone who knows how to 'turn a fast buck'. His book as expressed by Mark Casson endeavoured to provide a balanced view on the topic of entrepreneur.

Mark Casson felt that there was no established economic theory of the entrepreneur. Except for the discipline of Economics, all the social sciences had a definition of entrepreneur. He felt that there were two main reasons for the non-existence of an economic theory of the entrepreneur. These reasons were related to the limitations of the two main schools of economic thought prevalent at that point of time. First reason was that the neoclassical school of economics made extreme assumptions regarding the access to information.
The second reason was that the Austrian school of economics was committed to extreme level of subjectivism. This made the formulation of predictive theory of the entrepreneur impossible. The Mark Casson's book the theoretical reconstruction proceeds on two fronts. The first is to recognize that individuals differ not only in their tastes but in their access to information.

Individuals with similar taste but with different information may take different decisions. The entrepreneur exhibits this phenomenon. The entrepreneur will decide in one way which would be very different from what everyone else would decide. The entrepreneur considers that the totality of the information available to him/her with respect to some decision is unique. The entrepreneur's perception of the situation has a profound influence on the allocation of resources. The entrepreneur expects to earn profit from the difference in perception by 'taking a position' vis-a-vis other people.

Many of the predictions of the economic theory of entrepreneurship come from considering the tactical aspects of the strategy of the entrepreneur. The second area of reconstruction stems from recognition of the difficulty that is inherent in organizing a market. Mark Casson suggested that unlike neoclassical assumptions in reality transaction involves a significant resource cost. It is important for the entrepreneur's success that the entrepreneur minimizes the transaction cost incurred in establishing any given volume of trade.

Mark Casson has presented his book on Entrepreneur- An economic theory in fifteen chapters. Mark Casson had attempted to converge the two different approaches associated with the entrepreneurship theory. The functional approach was adopted by the economists and the indicative approach adopted by economic historians. The entrepreneur is defined as someone who specializes in taking judgmental decisions about the coordination of scarce resources.

8. Kunkel's Theory (Emphasis on Entrepreneurial Supply):

John H. Kunkel had built up his theory on the edifice of entrepreneurship supply. He was of the opinion that the sociological and psychological factors influence the emergence of entrepreneurs. Supply of entrepreneurs has a functional relationship with the social, political and economic structure.

In order to understand Kunkel's theory, let us understand few concepts associated with his theory.

In an economy, the supply of entrepreneurship depends on the following structures existing in the economy:

(i) Demand Structure:

This refers to the demand situation prevailing in the economy. The entrepreneurs expect rewards for their contributions and their behaviour is influenced by the rewards. The demand structure of an economy can be enlarged by rewarding the entrepreneurs with material rewards for their entrepreneurial activities.

(ii) Limitation Structure:

This structure influences the entrepreneurs and other members of a society. The society in this structure restricts specific activities. The entrepreneurs and the other members come within the ambit of this structure.

(iii) Opportunity Structure:

This structure is regarded as one of the most significant structure that influences the supply of entrepreneurs in an economy. This structure includes the existing market structure, the available managerial and technical skills, information about production techniques, supply of labour and capital.

(iv) Labour Structure:

This structure relates to the availability of skilled labour willing to work. The labour structure in influenced by number of factors like the mobility of labour, available alternatives of employment, level of traditionalism and prevailing work culture.

In Kunkel's theory, the conditioning procedure is a major determinant of the activities of the individuals. The behaviour of the individuals is highly subjected to the conditioning procedure surrounding the environment of the individuals. To influence and alter the individuals' activities there is a need to change certain factors of situation that influences the conditioning.

Criticisms:

Kunkel's theory despite of great recognition is criticized on the following grounds:

I. The theory is based on unrealistic postulates.
II. The different structures that influence supply of entrepreneurship are not that simple.
III. The theory of Kunkel tried not consider the ambiguous concepts like values, personality etc.

9. Hoselitz's Theory (Emphasis on Marginal Groups):

Hoselitz's theory emphasized that the cultural factors and the role of culturally marginal groups in entrepreneurial development. In his theory, Hoselitz had highlighted the importance of the culturally marginal groups in development of entrepreneurship and their contribution to economic development of the economy. The marginal groups are the minorities in the society and they yearn to elevate their conditions and in the process promote economic development.

In several countries the entrepreneurial aptitude are associated to persons of particular socio- economic classes. The importance and contribution of the culturally marginal groups like Lebanese in West Africa; Jews in Europe towards the economic development of those regions reflect the gist of the theory.

Hoselitz opined that the marginal men placed in an ambiguous position and therefore they are best suited to make creative adjustments in situations of change. They bring about genuine adaptations in their behaviours. They become entrepreneurs and promote economic development.

10. Cochoran's Theory:

Thomas Cochran in his theory had tried to discuss the supply of entrepreneurship from the sociological point of view.

We can understand the crux of his theory by discussing some of the principle elements of his theory.

Cochran had suggested that the cultural values of a society, social expectations and role expectations play an important role in determining the supply of entrepreneurs. The basic problems associated with economic development include non-economic issues. The social factors are responsible in determining the entrepreneurial dynamism and the supply of entrepreneurs.

As far as the entrepreneur is concerned, Cochran opined that the entrepreneurs are not extraordinary persons or super normal persons and they are not abnormal individuals deviant from the society. Rather the entrepreneurs represented role models of the society. An entrepreneur represents a society's model personality.

The entrepreneur plays an important social role. The role played by the entrepreneur is highly influenced by the model personality that crops up depending on the social conditioning. The role of an entrepreneur is defined by the defining group in corporate world which include the members of board of directors and other top officials.

Cochran was of the opinion that the intrinsic character and behaviour of the executive is highly dependent and conditioned by the type of childbearing and schooling. Thus all social and cultural factors play an important role in influencing the expectation levels, personality, behaviour of everyone in the society and entrepreneur's role specially.

The level of dynamics associated with entrepreneurial depends on social factors. These factors result in major changes. The model of Cochran was built on American experience of entrepreneurial dynamism. In the nineteenth century, American economy had experienced major changes as a result of the dynamism exhibited by the entrepreneurs.

Thomas Cochran held the view that the factors having a profound influence on the performance of the entrepreneurs include- First, the attitude of a person towards his/her own occupation. Second, the role expectations conceived and expected by the sanctioning group. And third, the operational requirements of the concerned job.

Criticisms:

Cochran's theory despite having earned high appreciations has been criticized on the following counts:

i. The theory doesn't provide a satisfactory explanation of the supply of entrepreneurs in an economy.
ii. The theory concentrates only on the social factors and their impact.
iii. The theory ignores the influence of important elements like risk, profit and innovation.
iv. The multiple roles associated with the entrepreneur have not been focused in the theory.

11. E. E. Hagen's Theory (Emphasis on Withdrawal of Status Respect):

E. Hagen in his theory had accredited the withdrawal of status respect of a group as the starting point for entrepreneurship development process. Before we discuss the concept of withdrawal of status respect let us try to consider the various crucial facets of the theory.

The theory is based on a general model of the society. His theory viewed the entrepreneur as a trouble shooter who contributes to economic development. The creativity of the entrepreneur brings about social transformation and economic development. Economic growth is associated with the social and political changes. He didn't encourage the entrepreneurs to imitate other's technology.

Hagen had ascribed the genesis of entrepreneurship to withdrawal of status respect of a group. The social group that experiences the withdrawal of status respect engulfs itself into aggressive entrepreneurism. In such a situation the status loosing group and the members of status loosing group endeavour to regain their status by undertaking rigorous entrepreneurial drive. Hagen had suggested the events that could create as well as indicate withdrawal of status respect of a social group. First, dislodgment of a traditional elite group from its prior status, Second, defamation of valued symbols through some change in the attitude of the superior group. Third,

Unpredictability of status symbols in the changed allocation of economic power. Fourth, when social group doesn't enjoy the expected status when it migrates to a new society.

There four possible reactions to the withdrawal of status respect which relates to four different personality types:

(i) The retreatist – An individual who works in the society but is indifferent to the work and position.

(ii) The ritualist – An individual who works in the manner accepted and approved by the society but has no hopes of improving his/her position.

(iii) The reformist – An individual who fights against the injustice and tries to rebels against the established society in order to form a new society.

(iv) The innovator – An individual who endeavours to bring about new changes and utilizes all opportunities. This personality reflects the personality of an entrepreneur.

Criticisms:

I. The theory lacks general application. It is not always true that all the social groups have behaved in the manner as advocated in the theory.

II. The theory ignores the various other factors accountable for development of entrepreneurship.

12. Leibenstein's Theory (Emphasis on X-Efficiency):

The concept of X-efficiency was introduced by Harvey Leibenstein a noted economist in1966 in his article titled "Allocative efficiency vs. X-efficiency". This is also referred to as X- inefficiency. In general X-inefficiency refers to the difference between the optimal efficient behaviour of business in theory and the observed behaviour is practice which occurs owing to different factors.

X-efficiency refers to the effectiveness with which a given set of inputs are used to produce outputs. If a particular firm is producing the maximum output it can, given the resources it employs with the best available technology, it is said to be technical-efficient. X-inefficiency occurs when technical-efficiency is not achieved. Whenever an input is not used effectively the difference between the actual output and the maximum output attributable to that input is a measure of the degree of X-efficiency.

Harvey Leibenstein had mentioned that for allocative efficiency the whole economy was considered whereas in case of X-efficiency just specific companies and industries are to be considered.

X-efficiency arises either because the firm's resources are used in the wrong way or because they are wasted, that is, not used at all. The entrepreneur has been entrusted two roles; first the role of a gap filler and second an input completer. The production function usually has certain deficiencies. These deficiencies and gap arise because all the factors of production function cannot be marketed. The entrepreneur has been entrusted the job to fill the gaps in the market. The second role of the entrepreneur is input completion. The entrepreneur has to mobilize all the available inputs in order to improve the efficiency of existing production methods.

Leibenstein advocated two types of entrepreneurship. First type is the 'Routine entrepreneurship' which involves the important functions of management of business. Second type is that of the 'New entrepreneurship' which involves innovative entrepreneurship.

Criticisms:

The Leibenstein's theory has been often compared with the neoclassical views.
The theory has many novel contributions but has been criticized on following counts:

I. The exact influence which the X-efficiency has on output of an organisation cannot be determined.
II. The theory is less predictable as compared to normal theories.

13. M. Kirzrier's View on Entrepreneurship:

Israel Meir Kirzner, an American economist has made remarkable contributions towards entrepreneurship. He has contributed many books. His ideas and theory on entrepreneurship can be understood by the going through his book 'Competition and entrepreneurship' published in 1973. There are six chapters. The second chapter is devoted to discuss the topics like nature of entrepreneurship, the different facets of entrepreneurs, entrepreneurial profits.

We shall try to understand the basics features enshrined in his ideas.
The basis of Kirzner's idea of entrepreneurship is spontaneous learning. The simplest situation in which spontaneous learning can occur is a Crusoe situation. Further, Kirzner calls the state of mind that enables spontaneous learning to occur alertness.
Kirzner introduces the notion of the pure entrepreneur by saying that there are two distinct ways in which this notion enters the analysis of the market process: First, by means of contrast with Robbinsian economizers, and Second, through the alertness.

According to Kirzner, the pure entrepreneur is "a market participant whose decisions are entirely incapable of being subsumed under the category of Robbinsian economizing." And the pure entrepreneur is "a decision-maker whose entire role arises out of his alertness to hitherto unnoticed opportunities."
Kirzner's notion of entrepreneurship as equilibrating combines three ideas. The first is that subconscious learning is equilibrating to the isolated actor. The second is that subconscious learning about arbitrage opportunities is equilibrating in markets. The third is that subconscious learning would lead to a general equilibrium if there were no changes in the non-entrepreneurial determinants of demand and supply.

14. Baumol's View on Entrepreneurship:

William J. Baumol a noted economist had made significant contributions towards the theory of entrepreneurship. He has many articles like 'Entrepreneurship in Economic Theory', 'Entrepreneurship: Productive, Unproductive, and Destructive' to his credit that reflects his notion on entrepreneurship.
Baumol (1968) discussed role of entrepreneur. He felt that the role of the entrepreneur is vital to economic growth. Baumol's approach to entrepreneurship within the economy shows that the entrepreneur is basically nonexistent in the models of economics. He stated that the entrepreneur has been read out of the model because the economic models are based on well-defined variables like output and price. There is no scope for analyzing the issues related to like inventiveness, cleverness, ambition of the entrepreneur in the models. He opined that theories won't be able to portray the function of entrepreneurial activity.
Again in an article Baumol laid out a simple hypothesis. He stated that the total supply of entrepreneurs varies across the societies. Moreover, the productive contribution of the society's entrepreneurial activities also varies due to allocation of their activities into productive and unproductive activities.

15. Peter Drucker's View on Entrepreneurship:

Peter Ferinand Drucker was an Austrian born American multifaceted management consultant, author, professor who described himself as a social ecologist. Drucker's book Innovation and Entrepreneurship published in 1985 is a great contribution. Peter Drucker regards the definition of J. B. Say on entrepreneur. J.B. Say was of the opinion that the "entrepreneur shifts economic resources out of an area of lower and into area of higher

UNIT – 2

"Promotion of a venture" means initiating all necessary efforts required to form a business or any other enterprise. Promotion starts from the stage of 'conceiving an idea of forming an enterprise and ends with its actually being established, and if necessary or desirable then being registered as per law.'

According to C. W. Grestenbeg : "Promotion may be defined as the discovery of business opportunities and the subsequent organization of funds, property, and managerial ability into a business concern for the purpose of making profit there form Entrepreneur identifies the opportunities and investigates which of them are profit yielding from economic point of views. If he finds the venture profit yielding then he takes the second step, that is of collecting the important resources. iz., land resources, human resources, natural resources and labour etc.

Meaning of Opportunity

Opportunity is a positive trend in external environment. It is an attractive project idea whicn an entrepreneur accepts as a basis for his investment decision. Finding out the possibilities of a business is generally regarded as identification of business opportunity. A mere "possibility" is to be distinguished from business "opportunity". Good business ideas must be capable Of being converted into feasible projects. Entrepreneurs generally have different possibilities and select only highest reward paying possibly for execution. Thus, a business possibility may take the shape business opportunity fit proves as commercially viable.

Objectives of Identification of Business Opportunities

An entrepreneur desirous of investing on a project has to look for suitable opportunities. This is not simple, since he has a very wide choice, and the dimensions of the choice are . product/service, technology, equipment, scale of production, market, time-phasing and location. The vast range of opportunities makes the task Of identification very difficult. The main objectives of identification of business opportunities may be summarised as follows :

(i) To evaluate the possibilities of utilising physical resources of a particular region from the technical angle.

(ii) To identify those industries which are not based on local resources

(iii) To identify the industrial potentialities in particular region and country as a whole.

(iv) To estimate the capital, labour, transport, power, fuel, raw material for feasible industries.

(v) To estimate the capital, labour, transport, power, fuel, raw material for feasible industries.

(vi) To explore the development possibilities of the region with regard to agriculture, minerals, labour, irrigation etc.

(vii) To identify those areas and directions which are necessary for the balanced growth of region.

(viii) To evaluate the impact of financial resources, production, employment in industrial development process.

Meaning of Opportunity Analysis

Before taking a decision to implement new ideas, it is necessary to study in depth their profitability and viability so that the venture may be successful and there may be reasonable return on investment. Such studies are called opportunity analysis and is done in various ways. While selecting a project, a prospective entrepreneur as to consider various aspects like input, output, social cost and benefits. An entrepreneur is always on lookout for potential profitable opportunities and exploits them in the best interest of his enterprise. Various factors such as financial and non-financial incentives provided by the government, availability of markets and environmental factors etc. are also considered by the prospective entrepreneur in the process of opportunity analysis.

Factors of Opportunity Analysis or Sources of Opportunities Analysis

Following factors or sources are included in the opportunities analysis :

(1) Market and Demand Analysis: Success of an business unit not depends on the amount of production but mainly on the fact that what amount of goods it can be sold in the market. Therefore, market and demand analysis is considered origin of opportunity analysis. Size of a business unit and technology used in it depends to a great extent on its market size and demand of customers. Hence, it is very essential that demand estimates are properly made and all the relevant factors must be taken into consideration like population, GDP growth, per capita consumption, competition with substitutes and imports, technical norms of consumption in case of intermediate goods and growth in the consuming industry. If anyone of these factor is not assessed correctly it is most likely that estimates may not be correct.

(2) Resource Analysis: entrepreneur has to see whether adequate amount of resourcs such as land, raw-material, machines, technology, financial sources, man-power etc. are available or not. If the adequate amount of these resources is not available then project will be assumed as come to an end. On the contrary, if resources are available then an entrepreneur has to see the sources and method of acquiring these resources.

(3) Technical Analysis: Technical possibilities for establishing a project is analysed in the technical analysis. If it is found that from the technical point of view project establishment is not feasible then no question arises to consider other factors. Scientific and Industrial Research have developed several new processes and technologies which offer opportunities for commercial exploitation But before applying new technology, it is necessary to get opinion Of experts and study all related facts properly to assess the effects Of changing.

(4) Business Environment Analysis environment analysis is necessary before establishment of a new enterprise. An important aspect of the business environment affecting investment opportunities is the government's policy framework. Main factors affecting the business environment are as follows :

(i) Industrial policy, (ii) Licensing policy, (iii) Industrial Development and Regulation Act, (iv) Price Control Policy, (v) Distribution System, (vi) Incentives for industries in backward region,

(vi) Incentives for small scale units, (viii) Incentives for export-oriented units, (ix) Recrulation of Foreign Exchange, (x) Assessment of profitability and position of existing industr.es etc.

(5) Financial Analysis: Financial analysis is a broad under which availability of financial resources and profitability of a project is analysed. Various factors such as cost of project, cost of raw-material, technical cost, marketing cost, operating cost etc. are considered in the financial analysis. Generally, financial analysis study the following aspects :

(i) Total Cost of ‘a project including cost of land, building, machines, raw material, cash flow etc.

(ii) Sources and requirements of fixed and working capital.

(iii) Expected sales, terms of credit, income, profit, interest, return on investment etc.

(iv) Assistance and financial concessions from the government.

(v) Social profit analysis in case of public enterprises.

(vi) Return on capital investment.

(6) Risk Analysis: Various types of risks are found in a particular business in which economic risk, social risk, environmental risk,. technical risk etc. are the main risks. With the change of business environment, nature and extent of risk also get changed. An entrepreneur has to decide in the identification of opportunity analysis that what amount of risk is involved in availing opportunity and upto what extent risk acceptance will prove profitable to him.

(7) Plant Location and Layout Situation: The main object Of plant location analysis is to find out the place where plant is to be established. The decision of plant location depends upon various factors such as, availability of raw material, labour, power supply, transportation facilities, communication and bank facilities, social amenities, service facilities, market etc. The government also allows certain incentives and concessions for industries development in backward areas such as, concessions in taxes, facilities of training, light and land at cheaper rates, financial subsidies, facilities for import of raw-material etc. An entrepreneur should take into consideration all these factors while deciding the plant location. An entrepreneur should also prepare best layout so that he can produce maximum production at lower cost.

(8) Evaluation Analysis: It is the last stage of opportunities analysis. Following are included in the evaluation analysis :

(i) Evaluation of various aspects of project.
(ii) Evaluation of economic profitability.
(iii) Evaluation of Social profitability.
(iv) Evaluation of cost of project.
(v) Evaluation of availability of essential resources.
(vi) Evaluation of existing competition.
(vii) Evaluation of competition in global market.
(viii) Evaluation of effects of there external factors.

External Environmental Analysis

Meaning of External Environmental Analysis, The word “External Environment Analysis” has been made up of two words ‘External Environment’ and ‘Analysis’. The first word ‘External Environment’ Means elements or factors outside the institution of the entrepreneur, like – economic, social, cultural, political, physical, educational, technical, religious, ethical and international, etc. which affect his business.

The other word, ‘Analysis’ means reactions towards those factors or elements or issues, neglect thereof or taking of decisions by predicting the opportunities.

Hence, in composite form, external environment analysis means such process through which decision is taken, by assessing economic, socio-cultural, political, physical, educational, technical, religious, ethical and international environment or factors or element, or issues. and also opportunities.

External environmental analysis or evaluation is a process through which strategic planner (entrepreneur) evaluates economic, social, official, supply, technological and market conditions to determine the opportunities and challenges for their enterprise and according to which he adjusts his strategy and objectives.

Thus, external environment analysis is that process through which the entrepreneur determines opportunities, threats, reactions, neglects and challenges by evaluation of those factors and in consonance whereof, adjusts his strategies and objectives.

Features of External Environmental Analysis

Following Characteristics of external environment analysis may be observed by studying and analyzing its meaning.

1. Continuous Process

External environment analysis is a continuing process because till an entrepreneur will not keep the continuous watch on the changes happening in the environment, he will not be able to have knowledge about the threats and challenges.

2. Determination of Opportunities and Challenges

By external environment analysis, the entrepreneur evaluates all factors and parties to determine the opportunities and challenges for his enterprise, so that he may face the challenges of some factors and their tendencies.

3. Adjustment of Strategies and Objectives

In the external environmental analysis, the entrepreneur evaluates those factors to determine opportunities, threats, reactions and challenges for his enterprise. Thereafter, he adjusts his strategies and objectives in accordance with those factors.

4. Inner Knowledge Process

External environmental analysis is a process through which environmental conditions are known on the one side, knowledge is also gained about future possibilities and hidden opportunities. As a result, the decision making and making adjustments of strategies and objectives, by the entrepreneur become easy.

5. Opportunities and Threats

External environmental analysis is the opportunity and threat analysis, 'meaning thereby that the external environmental analysis provides the opportunity to the entrepreneur that presently the circumstances are favorable and hence decision may be taken quickly and may be implemented also, so that profit may be earned. On the contrary, the external environmental analysis may also pose the threat that the circumstances are not favorable and hence caution and care be exercised, otherwise, losses may occur.

6. Goal Orientations

Through external environmental analysis, the entrepreneur makes efforts to know the future possibilities and their real effects or makes efforts to achieve his goal by searching business opportunity with the help of external environmental analysis.

Need and Importance of External Environmental Analysis

For an entrepreneur, continuous study and evaluation of external environmental analysis are essential.

External Environmental Analysis

For the entrepreneur analysis of external environment is necessary, so that he may know.

1. Which of the environmental factors are posing threats to the present strategy and obtainable objectives of the entrepreneur?
2. Which of the environmental factors are presenting opportunities, which may be availed by making necessary adjustments in the present strategy?

Importance and necessity of external environmental analysis may be easily understood with the help of following points.

1. Success of Entrepreneurship

For the success of an enterprise, advance evaluation of the far-reaching favorable effects and ill effects of the external environment and its factors is necessary. If such advance evaluation provides some specific knowledge, the entrepreneur gets alert about them and tries to adjust his decisions, accordingly.

2. Formulation of Viable Plans

We have studied that the business environment is dynamic, and not static. Hence, the entrepreneurs should effectively assess and analyze it to give practical and functional shape to his plans.

3. To Create Measures for Competitive Environment

The competitive environment is also an essential part of the total environment, which cannot be left unseen. Hence, it is essential for the entrepreneur that he should study and analyze the external environmental factors, so as to work out measures against the strategies of their competitors and to adopt counter Strategies. Thus, external environmental analysis is necessary for working out strong measures against the competitors.

4. Formulation of Successful Plans

Components of planning include objectives and goals, policies, Budget, Time, standards and strategies. The forecast is the base of planning. Hence, for the preparation of successful business plans of the entrepreneurs, determination of various components, basis and their effects is necessary. Not only that, but the study of factors of the external environment is totality is also essential.

5. Helpful in Selection of the Best Alternative

External environmental analysis and investigation not only help the strategic decision makers in restricting the volume of available alternatives but also in removing the is irrelevant alternatives, by taking future opportunities and challenges and threats into consideration. The best strategy cannot be easily identified, but unwanted alternatives may be removed to a large extent and the best available alternative and may be selected through external environmental analysis and investigation.

6. Use of Profit Opportunities in Business

The external environmental analysis provides information on various opportunities of gaining profit in business. For that, it is essential that the entrepreneur may remain alert towards, that environment and factors. Similarly, the entrepreneur should have knowledge about economic events, social changes, government policies, and foreign Corporation, etc. so that various available opportunities may be availed for earning optimum profits. Such knowledge maybe also make him alert towards future challenges and threats. Thus, the entrepreneur may use several opportunities for Profit in his business through external environmental analysis.

7. To Provide Permanency to Possibilities for Sale of Products

In the external environment and its factors, the products, production procedure, and methods, cost structure, marketing strategies, distribution chain, technical and sale methods of the competitors are also studied. By analyzing these, the possibilities of the sale of products may be provided permanency, because by such analysis the entrepreneur becomes capable to easily take strategic decisions.

8. Leadership of Market

External environmental analysis is also required because through it is the entrepreneur get knowledge about new products and new services available in the market, fashion, likings of the consumers, new techniques of production and methods, etc. With the use of such knowledge, the entrepreneur may increase his sales by efficiently leading the market, which will surely result in good profits to him.

9. Vigilance Towards Future Threats and Challenges

The external environment analysis also provides advanced Information about various future threats and challenges to the entrepreneur and make him alert. High management of the corporation (entrepreneur) and his planning department continuously keep watch on happenings in the markets, and which threats and opportunities are waiting for him.

10. Permanent Residence of the Institution and Entrepreneur

External environment analysis by any entrepreneur is essential to ensure stable existence of his institution, the reason being that by doing so, he keeps watching on the environment and its factors and makes necessary adjustments in his Strategies and objectives. If he does not do so, his own existence or of his institution will gradually come to an end.

Entrepreneurship Environment

The entrepreneurial activity depends upon a complex and varying combination of socio- economic, political, psychological and other factors. Entrepreneurship is not an inborn quality; it is a product of environment. To be successful, an entrepreneur has to remain dynamic and responsible to the whole environment. Environment is a combination of various dynamic, complex and uncontrollable external influences within which an entrepreneur has to function. In case of favorable business environment, entrepreneurship developed rapidly. Environment creates challenges, pressures, risks, opportunities, gains and threats for the entrepreneur. Entrepreneur needs a rational vision on his part to take advantages of these changing conditions.

Both entrepreneur and environment are dependent on each Other. All external environments affect the working of an Entrepreneur but entrepreneur also shapes the environment. The Influence of entrepreneurial acts on the external environment especially on the society can be measured easily.

Role of Economic Environment in the Development of Entrepreneurship

One of the most important factors affecting entrepreneurship is economic environment. It exercises the most direct and immediate influence on entrepreneurship. Economic environment is usually complex, rapidly changing, uncertain and not easily controllable. Hence its study becomes all the more important. Economic environment mainly includes the economic system economic conditions, economic policies, state of various resources and facilities like capital, raw materials, infrastructure and so on prevailing within the country. Economic conditions play an important role in the formation of stratifies business policies. For example in the developing nation's level of income, consumption, savings, employment and demand is lower in comparison to the developed nations. Keeping in view of all these factors, an entrepreneur takes decisions about his economic activities. Similarly, if the interest rates are increased, then the funds needed for investment may become costlier. Again, business tax policies can encourage some enterprises for expansion, diver- ossification, or modernization programmers. Export promotion schemes announced by the Government may attract many new entrepreneurs to form their ventures. The influence of these economic factors may differ from venture to venture, especially keeping in mind their internal environment. The important elements of economic environment and their influences may be discussed as follows:

1) Economic System: Economic System of a country may be capitalist, socialist, democratic or mixed. Economic system determines the nature and scope of entrepreneurship. It also affects mobilization of resources. In the capitalist system, entrepreneur-ship developed rapidly while socialist economy creates hindrance in the way of entrepreneurship. Entrepreneurs can work independently in the capitalist economy which is not so in the socialist economy.

Economic Conditions: Economic condition of a country may be of developed, developing and underdeveloped. The nature of Entrepreneurship is determined by the level of development of economy. 'In developed economy, entrepreneurs have to undertake innovative activities for survival and growth but in the developing and underdeveloped countries, entrepreneurs do not take much interest in the innovative activities. In these countries, entrepreneurs have to face many problems and challenges for their development,

(2) Structure of Economy: The factors like national income, rate of capital formation, development of capital market, rate of investment, saving and foreign trade etc., is the structure of the economy. The favorable growth of these factors may promote entrepreneurship.

(3) Trade Cycles: Cycle of inflation and deflation, create many challenges and problems in the development and expansion of entrepreneurship. Changes in major economic variables like money income, cost of living, interest rates, savings, credit availability etc. have an immediate impact on the working an enterprise.

(4) Economic Policies and Laws: The government enacts various laws to regulate the business environment. Industrial policy, Licensing policy, monetary policy, import-export policy are considered economic policies which produce a great effect on the entrepreneurship activities. Company Law, Banking Law, Foreign Exchange Law and other laws affect the business environment. Favorable economic policies and laws promote the development of entrepreneurship.

(5) Financial Resources: Adequate Funds are required for bringing together other factors of production. It also encourages innovations and introduction of new things. Lack of required capital for industrial activities may impede and discourage entrepreneurs.

(6) Human Capital Formation: Human capital formation is the process of increasing knowledge, work skills and the abilities of all people engaged in productive activities. The low level of education, knowledge and efficiency or labor may inhibit emergence of entrepreneurship.

(7) Resources of production: Supply of various resources of production such as raw material, machines and equipment, power technical labor etc. deeply affect the growth of enterprise and risk-takers. Labor's expectations, prevailing wage rates, productivity, labor union activities etc. influence the growth of entrepreneurship. (9) Market, prices and competition: In the modern competitive world, no entrepreneur can think of surviving in the absence of latest knowledge about market and various marketing techniques, the size and composition of market, price level of products, and the position of competing institutions also affect the survival and growth of entrepreneurship.

Role of Social Environment in the Development Of Entrepreneurship

Social environment strongly affect the entrepreneurial behavior, which contribute to entrepreneurial growth. Social environment includes the values, attitudes, beliefs, customs, religion and habits of the people. Prosperous and developing social environment motivate the development of entrepreneurship whereas traditional and orthodox social environment put hindrance in the way of entrepreneurship development. In brief, effect of social environment on the entrepreneurship development may be explained as follows:

(i) Customs and Religious Traditions: Customs, religious faith and ideology also affect entrepreneurial growth. In a developing country like India, there are such religious traditions which are not conductive to entrepreneurship. People are fatalists and they do not like to work hard or do something new. They remain satisfied with old.

(ii) Family Background: The environment of family affects entrepreneurship. Joint family can provide family resources to invest and expand family business. If the father is a professional, entrepreneur or businessman, the son is more likely to enter the same line because of certain inherent advantages. Mobility of the entrepreneur is influenced by the occupational and social status of the family.

(iii) Desire for improvement and protection of status: The desire for improvement and protection of status forces people to behave responsibly. People work hard to maintain and improve their status and it contributes to entrepreneurial growth.

(iv) Social Mobility and Social Marginality: There are some persons of the view point that high degree of mobility is conductive for the emergence of entrepreneurship. Social marginality also positively influences entrepreneurship.

(v) Values: Values are enduring beliefs that people hold about morals, equality, freedom, work ethic, and so on. When values change, the impact is felt in the ways in which entrepreneurs, government and society operate.

(vi) Attitude towards changes and Risk-taking: People's attitude towards changes, capacity and feelings of risk-taking etc. also affects the entrepreneurial environment. Positive attitude to adopt changes and risk-taken, influence the development of entrepreneurship.

(vii) Work Ethics: It is dedication or preoccupation with work. It is a sense of duty and work which is needed for entrepreneurial progress. The Japanese have achieved tremendous progress because of their commitment of work.

(viii) Educational and Technical Know How: Education, entrepreneurship and development are very closely related, rather say they are interrelated. Education is the best means of developing man's resourcefulness, which encompass different dimensions of entrepreneurship. It is further expected that the high level of education may enable the entrepreneurs to exercise their entrepreneurial talent more effectively and efficiently.

Thus, an entrepreneur cannot build up its image in the society without considering the social objects, values, interests and welfare. This type of social awareness increases the image of business enterprise. If economic growth and entrepreneurial development are to take place, the various forces of social environment must be taken into consideration.

Socio-economic environment has a great impact on the entrepreneurial behavior and success of entrepreneur. The entrepreneurial activity depends upon a complex and varying combination of socio-economic, psychological and other factors. In the developing nations low level of income, consumption, savings' demand, and employment exists, so entrepreneurs consider all these factors while determining their economic activities. Similarly restrictions imposed by monetary and physical policy of the government also affects business enterprises. Economic conditions, economic system, structure of economy etc. also influence the entrepreneurship activities. Social environment i.e. values, religion, customs, attitudes, education, ambitions etc. influence the development of entrepreneurship. An entrepreneur cannot build up its image in the society without considering the social objects, values, interests and welfare. Thus, socioeconomic environment has a great role in entrepreneurship development.

Role of Technological Environment in the Development Of Entrepreneurship

Technological Environment means the development in the field of technology which affects business by new inventions of productions and other improvements in techniques to perform the business work.

Technological change presents significant opportunities and threats for entrepreneurs. Technology developments

affect business operations in a number of positive ways:

- Increasing access to, and storage and manipulation of, data.
- Increasing speed and volume of communication.
- Reduced language and cultural barriers.
- Reduced costs of production.
- Reduced administration costs, waste and increased efficiencies.
- Increased outsourcing of key functions cutting operating costs.
- Higher quality products at competitive prices through improved innovation and development.
- Better working conditions, flexible working practices and greater opportunity for personal development.
- Increasing access to global markets and greater mobility in business transactions.

However, there are some potential negatives associated with technology development

- The real costs of remaining ahead of competitors.
- Fewer barriers to entry to markets, allowing smaller companies to compete using relatively low cost web marketing tools.
- Empowering customers to seek lower prices and better deals.

- The increasing support costs such as licensing of software, maintenance of equipment and the training of staff.
- Reduced job security.
- The pace of constant change undermining existing organisational structures and threatening social relationships.
- The increased risk of interconnected systems failing and resulting chaos. Not all systems are secure and it is increasingly difficult to protect systems from hacking.

Legal Requirements for Establishment of a New Unit

Establishing a new business unit is a complex and risky task. Entrepreneurs have to fulfil various legal formalities for establishment of a new unit. Hence, the entrepreneur needs to be aware of any regulation that may affect the establishment of his new unit. Legal formations may be necessary at different stages of the start up. These formalities differ in relation to the form of enterprise adopted by the entrepreneur, such as sole proprietorship, partnership firm and company. The legal requirements also differ in reference to the size of the business unit, such as small scale, medium scale, or large scale enterprise. Moreover, consumer product enterprise and industrial product enterprise may attract different legal formalities. Following legal requirements are fulfilled for the establishment of a new business unit :

(1) Incorporation and Registration : There found various forms of business proprietorship in the private sector such as sole-trader, partnership, Joint Hindu family and company etc. In case of sole-proprietorship, partnership and Joint Hindu family, registration is not compulsory, while in case of company, incorporation and registration is essential.

INCORPORATION OF A COMPANY

Company is established through legal procedure and have a separate legal entity from its owners. Legal procedure of establishment a company is termed as incorporation. For this purpose, registration of company has to be made with the Registrar of companies. An entrepreneur is required to submit an application for registration following documents :

(i) Application form duly filled in and signed by an authorised person.

(ii) Memorandum of Association : The Memorandum of Association, is the charter of the company. This includes its objectives, its name, the address of its registered office, the capital which the company is authorised to raise, the nature of liability of members as well as the names, addresses and agreement of people who agree to form a company.

(iii) Articles of Association : The other important document is the articles of association which contains the rules and regulations relating to the internal management of the company. However, it is not necessary for a public company limited by shares to file the articles of association. If such public company does not file Articles of Association, it is deemed to have adopted ‘Table A’ of schedule I of the Act.

(iv) Written consent of the directors : Written consent of the directors who are agreed to act in that capacity, duly signed by each director, along gith a written undertaking by them to take the necessary qualification shares, if any, as provided in the articles.

(v) A copy of agreement with any individual for appointment as a managing director, or a whole- time director or manager.

(vi) A statutory declaration stating that all the legal requirements of the Act precedent to incorporation have been complied.

(vii) A letter of intent under Industries (Development and Regulation) Act, 1951, if the company s business comes with the purview of this Act.

(viii) Address of registered office of the company. However a company may file registered address within

30 days of its registration.

(ix) At the time of registration, the prescribed registration fees and filing fee for each document filed for registration are to be paid to the Registrar's office. After receiving these documents, Registrar scrutinise these documents and if he is satisfied that all the documents are in order, he shall enter the name of the company in the register of companies and issue a certificate of incorporation.

CAPITAL SUBSCRIPTION

Next step in the registration of a company is to raise capital for the proposed company. Company obtain the ecessary capital by selling shares to the public. Following procedure is adopted for this purpose :

(i) Permission of public issue from 'The Securities and Exchange Board of India.
(ii) Agreements with tho underwriters, brokers and share issue managers.
(iii) Filing a copy of prospectus with the Registrar.
(iv) Invite the public to purchase the shares of the company by putting the prospectus in circulation.
(v) Receiving applications for shares through the company sbanker.
(vi) Formal resolution of allotment, if the subscribed capital is at least equal to minimum subscription of 90% of capital issue.
(vii) In case, minimum subscription is not received, the entire amount with application would have to be refunded at the end of 120 days from the circulation of prospectus.
(viii)Issue of allotment letters and share certificates.
(ix) In case a company having a share capital, but not issuing a 'prospectus', filing a 'Statement in lieu of Prospectus' with the Registrar at least three days before the first allotment resolution.

COMMENCEMENT OF BUSINESS

A public company cannot commence business immediately after incorporation unless it has obtained a certificate of commencement of business from the Registrar. Following documents have to be filed for this purpose :

(i) Shares payable in cash have been allotted to the extent of the minimum subscription;
(ii) Every director has paid in cash the application and allotment money on the shares taken by him;
(iii) No money is liable to be refundable to the applicants for failure to apply or obtain permission for the shares or debentures to be dealt in on any recognised stock exchange.
(iv) A statutory declaration duly verified by one of tho directors or the secretary in the proscribed form that tho above conditions have been complied with has been filed with the Registrar.

The Registrar will scrutinize those documents and if ho is satisfied, he shall issue a "certificate of commencement of Business, This certificate is conclusive evidence that the company can commence its business and use its borrowing powers

(2) Small Unit Registration Certificate : The entrepreneur of a small scale unit should seek registration of his selected project unit with the Directorate of industries. This will make the entrepreneur and his unit eligible for availing Government assistance. A unit is normally registered provisionally first and accorded permanent registration later.

(3) Registration under the Factories Act : An entrepreneur must registered his enterprise under the 'Factories Act, 1948', before starting the manufacturing unit. Factories Act contains provisions regarding licencing and registration of factories, working hours, health, safety and welfare measures, employment of women and young persons, annual leaves, dangerous operations etc. The Act fixes the minimum age of persons who can enter a factory for work at 14 years. The Act, lays down the provisions regarding cleanliness, ventilation, overcrowding, lichting, explosive gases, dust, fume, fencing of machinery etc.

(4) Import License : If imported raw-material and other equipments are necessary for the new business enterprise, then he should obtain the import licence from the export-import controller.

(5) Permission of Finance Ministry : For the agreement Of foreign collaboration, an entrepreneur must obtain the permission of finance ministry.

(6) No Objection Certificate (NOC) : The unit must obtained all necessary clearances. For example, NOC from Pollution Control Board is obtained if required.

(7) Industries (Development and Regulation) Act, 1951 : The licencing policy for industries is determined under this Act. The Act states that the Central Government may specify the requirements which shall be complied by small scale industrial undertakings to be regarded as a small scale or an ancillary industry. This may be done by the Central Government with a view ascertaining which small scale or ancillary industrial undertaking needs supportive measures, exemptions or other favourable treatment under this Act to enable them to maintain their viability and strength.

(8) Foreign Exchange Regulation Act : All foreign collaborations required the approval of the government and are subject to the regulations under the Foreign Exchange Regulation Act. All investment by foreign companies in India is permitted only with the approval of the Reserve Bank of India. The Reserve Bank of India's approval is again based on the approval of the investment proposal by the government.

(9) Registration of Trademark : According to Trade and Merchandise Marks Act, 1958 (India) the mark' "includes a device, brand, heading, label ticket, name signature, word, letter or numeral or any combination thereof." The purpose of registration of trademark is that the consumer may distinguish the product of manufacturer/service provider from others and therefore 'decepti.vely similar' trademarks are not allowed to be used because they can cause confusion to users. Once a trademark is registered as per provisions of Trade and Merchandise Marks Act, 1958 and Trademarks Act, 1999 no one else can use similar trademark on any of its packing. The trademarks are registered for unlimited period and helps in the promotion of sales.

(10) Registration under the Sales-tax Authority : An entrepreneur should get registered his enterprise in the sales-tax department of the state government and obtain certificate for this purpose. Besides above mentioned legal formalities, an entrepreneur have to fulfil some other formalities also depending on the nature of product produced by the new business unit. For example he has to get registered his unit under the Service Tax Act, Food and Drugs Control Act etc.

Raising of Funds

Raising investment funds can offer a significant jumpstart to one's business and increase the likelihood of success. Depending on the type of business and its domain, an enterprise would like to raise capital for business, to either start its operations or grow it at a faster pace. Fortunately, there are various new entrepreneurial funding sources.

However, it is also important to select from the best source based on the entrepreneur's requirements and their financial standing. Partnering with a right investor can help a business soar to higher levels and sustainably achieve success.

As per a recent survey, in 2016, a total of $4 billion investment funds were deployed in Indian start-ups. The volume increased by 3% from 2015.

On the other hand, many entrepreneurs shut their shops due to lack of funding. Money is the bloodline for any business, and it needs the fuel called capital to survive the painstaking journey from ideation to growth. And that is a common reason, why most of the entrepreneurs at almost every stage are seeking outside investments.

Along with the cumbersome task of complying with all the legal requirements of incorporation, there is one more important area where startups need to put up significant amount of effort - raising funds, both to start the business and to operate it. Without this, your brilliant idea stays just an idea.

SEBI (Venture Capital Funds) Regulations, 1996, tried to fill the gap of capital funding for startups from institutional source. Before the emergence of venture capitalists in India, startups usually had a handful of options such as raising money from friends and family, private placements, IPOs and loans from banks or central as well as state level financial institutions namely, IDBI, IFCI, SIDBI, etc. Early 2007 - 2008 saw private investors enter the startup space and the formation of angel investing community.
Subsequently, in 2012, SEBI introduced Securities and Exchange Board of India (Alternative Investment Funds) Regulations that recognize AIFs as a distinct asset class with the objective to encourage startups and permit fund investment strategies in the secondary markets.

According to SEBI, Alternative Investment Funds refer to any fund established or incorporated in India as a trust/company/LLP which:

1. privately pools investment from investors, whether Indian or foreign, for investing it in accordance with the regulations
2. And is not covered under SEBI (Mutual Funds) Regulations, 1996, SEBI (Collective Investment Schemes) Regulations, 1999 or any other regulations that regulate fund management activities.

After exhausting your personal sources of finance - co-founders, (which is also known as 'bootstrapping' or self-funding), family, and friends some other alternatives for funding are:

Crowd-funding

An unconventional route, crowd funding refers to taking funds in the form of loan{1} or an investment, usually in smaller denominations, from large number of investors at the same time. The funding is done online for easy pooling of resources. You will have to put up a detailed business proposal mentioning the revenue model, goals, targeted markets, etc. on a digital crowd-funding platform. Investors can either pledge to pre-buy your product offering or make donations.

Seed funding

The term seed funding is based on the analogy of planting a tree (or business) with the help of a seed (or funds). Seed firms are also sometimes known as 'incubators', invest in early stages of startup often when the business is still just an idea. Substantial funds are raised to support market research and development for the company.

Angel funding

According to SEBI (Alternative Investment Funds) Regulations, 2012, angel investor is defined as "any person who proposes to invest in an angel fund and satisfies one of the following conditions -

1. an individual investor with net tangible assets of at least Rs. 2 crore, and
   a. has early stage investment experience,
   b. has experience as a serial entrepreneur,
   c. is a senior management professional with at least ten years of experience
2. Body corporate with a net worth of at least Rs 10 crore;
3. A registered Alternative Investment Fund or a Venture Capital Fund registered under the SEBI (Venture Capital Funds) Regulations, 1996.

Angel funds are defined by SEBI "as a sub-category of Venture Capital Fund under Category I- Alternative Investment Fund that raises funds from angel investors and invests in accordance of SEBI (AIF) regulations."
With their experience and knowledge, one can gain a lot more than money, for example, management & entrepreneurial skills, important insights, contacts.

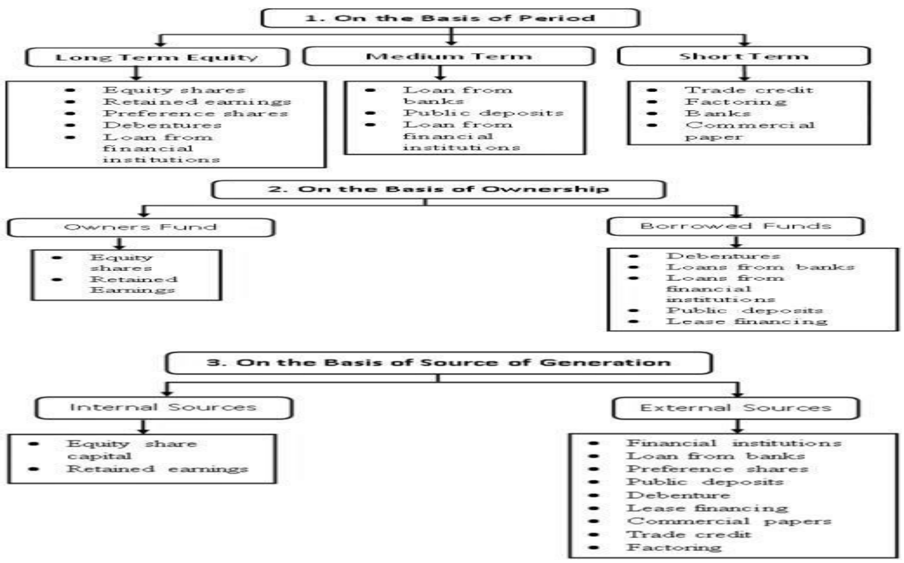
Series A,B, C funding

These rounds of funding differ based on the level of maturity of the startup and type of investors involved.

Series A funding is used by startups in optimizing product offerings and user base by creating business models that generate long-term profit. The important factor focused on this stage is scale of operations and users. Usually, early stage venture capital firms with high risk appetite are seen investing in this round of ..

Series B round of funding is the second round wherein the focus is on taking business to the next level in terms of scaling and expansion. Private equity investors and venture capitalists contribute to the capital of your business when certain pre-determined milestones are achieved. The cost of funding at this stage is higher as compared to Series-A funding.

Series C round of funding is the third injection of capital which is usually available to succes ..



Venture Capital sources & documentation required

Venture Capital

The term venture capital was originally coined in U.S.A. and has been developing world wide. The move spread in India in 1973 when R.S. Bhatt Committee recommended the formation of venture capital fund in the country. The concept of venture capital was evolved to help those persons who have good product ideas, but lack the necessary funds to convert these ideas into production. It is a source of finance for the new and untried enterprises having new ideas and new technologies with high risk, but with a potential for rapid growth. Venture capital is usually structured in the form of equity and debt capital. It is provided by the wealthy investors, firms, institutions and companies for all stages of financing the new venture. Some think that venture capital is the early-stage financing of new start-up ventures. Others think that venture capital is the financing of high and new technology-based enterprises. More accurately, venture capital is an alternative form of equity and debt financing made available to new ventures who have technically qualified entrepreneurs with inadequate funds, having high risk but good growth prospects. A few definitions of Venture Capital are as follows :

International Finance Corporation, Washington (IFCW) defines venture capital as "equity or equity featured capital seaking investment in new ideas, new companies, new products, new processes or new services that offer the potential of high returns on invest. ment. It may also include, investment in turn around situations, " According to the Bank of England, "Venture capital is an activity by which investors support entrepreneurial talent with finance and•business skills to exploit capital gain." According to Pratt, Venture capital is thought of as, "the early stage financing of new and young enterprises seeking to grow rapid Thus, venture capital is an

alternative form o/ equity financing made available to new ventures and technically qualified entrepreneurs with inadequate funds, high risk and good growth prospects.
Entrepreneurial firms which are high risk units, high return ventures and which face the difficulty of funds get their finances from venture capitalists, This type of capital is provided only for new ventures.

Characteristics Or Essentials Of Venture Capital

The venture capital financing is different from traditional or conventional financing in that the traditional financiers invest in proven technologies and low risk ventures, whereas venture capitalists invest in new technologies and high risk ventures. Some of the main distinguishing features of venture capital may be summarised as follows :

(1) High Risk : Venture capitalists provide finance to high risk 'high-reward ventures. These risks involve technology risk, market risk, liquidity risk or any other type of risk.

(2) Equity-Debt Financing : Venture capitalists manage for both equity and debt finances. They invest in shares to get high returns. They earn capital gains by selling the shares once the enterprise prove profitable. They provide debt financing in the form of debentures.

(3) Long-Term Investment : Venture financing is a long-term investment of funds. Funds are provided för 5 to 10 years. Venture capi!al is not repayable on demand. The investor has to wait for a long time to earn profit.

(4) Participation in Management : As already explained venture capitalist not only invests in the equity shareholding of the entrepreneurs company but also participates in the management affairs and gives his advice from time to time. Venture Capitalist has an active involvement in the business of the entrepreneur after making an investment. Thus we can say that venture capitalists don't just invest, rather they build companies.

(5) Creative Capital : Venture Capital is termed as a creative capital as it propelled new ideas to major commercial successes. It helps entrepreneurs to launch enterprise with a specific promise.

(6) Professional Entrepreneurs : Usually, the venture capital is provided to those entrepreneurs who are professionally or technically qualified but lack adequate funds to start a new venture. The entrepreneur should have the capability to make an intense effort to do the business. He should also have proper knowledge of his markets, along with risk management quality.

(7) New Technology : Venture capitalists provide finance usually to those entrepreneur who try or employ new technology which may produce uncertain results.

Sources of venture capital

The concept of venture capital was originated in the U.S.A. Now it has become a worldwide concept in the field of risk financing of industrial projects. The development of venture capital in India is still in infancy, being about a decade old. It is a growing capital market. In fact in India, 'risk financing is still in an evolutionary state. The funds available to Indian venture capital industry are small. What is the need or relevance of venture capital in India when there are commercial banks and financial institutions to provide funds to industrial enterprises, small or large ? In developed countries, where there is highly progressive industrial environment as well as advanced entrepreneurial culture, it is common for entrepreneurs to set up companies to produce new products by Obtaining funds from venture capitalists. On the other hand, in India and also in other developing countries, 'risk' financing of this type is yet in its infant stage. Of course, there are a large number of commercial banks and financial institutions in India, which provide 'traditional' (non-risk) financing mainly to those enterprises that use proven or established technologies with minimum level of risk. Such financing is collateral-security oriented and asset-based. It involves uniform repayment of fixed instalment. It is security oriented rather than risk-oriented. Traditional finance has a preference for foreign technology firms, and do not trust the entrepreneurs who adopt new products or new technology involving greater risk. In this background of weaknesses or drawbacks of traditional finance the venture capital assumes an important role to play in providing risk finance to small and medium size entrepreneurs. Sources of Venture Capital in India may be divided into three categories :

(I) All India Level Venture Capital Funds. (Il) State-Level Venture Capital Funds. (Ill) Specific Venture Capital Funds.

(1) All India Level Venture Capital Funds :– Many Venture Capital Funds are established at All India level to provide venture capital in India. Some of the important venture capital funds are as follows :

(1) IFCI Venture Capital Fund Limited : IFCI provided venture capital assistance for the first time in 1975 after the establishment of risk capital foundation (RCF). The financial capital assistance under IFCI's risk foundation scheme has been mainly for the traditional industries like textile, iron and steel and chemical. It provides assistance basically for technologists and professionals. General limit of contribution is up to 50% of promoter's contribution, subject to a ceilling of Rs. million. Only public limited companies were eligible for this finance. IFCI charge no interest on such loans but a nominal service charge is levied. Mode of repayment was that, repayment will be out of dividends and the period of repayment is fixed according to the facts of each case.

(2) IDBI Venture Capital Fund : IDBI Venture Capital Fund (VCF) was started in 1986 with an initial capital of Rs. 10 crore. This fund provides venture capital to low and medium grade ventures. IDBI has started seed capital scheme for venture capital finance Main points of seed capital scheme of IDBI are :

(i) Project cost upto 'Rs.Æ0 'millions'and project should be in small or medium firms.
(ii) Assistance will not exceed Rs. 1.5 per project.
(iii) Debt-equity norm of 2 : 1 is stipulated.
(iv) Free of interest loans and nominal service charge.
(v) Assistance is provided through SIDCs/SFCs.
(vi) Policy of being lender of last resort for financial requirements.

(3) ICICI Venture Management Company Ltd : The Government of India issued Venture Capital Guidelines in Novem- ber, 1988. These guidelines authorised all India Financial Institutions, Commercial Banks and their subsidiaries to launch venture capital companies. ICICI in 1988 formed Technology Development and Investment Corporation of India. (TDICI). This corporation managed various schemes •of venture capital financing on commerciallines. This is also the largest venture capital firm in India. It provides assistance to industries directly or through venture funds which are managed by it for other institutions and venture funds out of its own resources. TDICI accepts and evaluates the promotor's business plan by knowing his management team, nature of his product, market conditions for his product, competition, his investment requirement etc. TDICI goes through the entrepreneur's business plan, if it finds the plan to be good, and the promotor is clear about his business he gets, his work is almost done, otherwise his project is dropped.

(4) Canbank Venture Capital Fund Limited (CVCFL) : Canbank Venture Capital Fund Limited was established in 1989. At present Canbank has three subsidiary units which possess Rs. 164 crore, Rs. 10•5 crore and Rs. 30 crore respectively. Up to 30th March 2003 Canbank has provided financial aid of Rs. 3424 crore to 51 institutions. Influenced by the success of these venture funds, Canbank is going to establish a fourth venture fund subsidiary, which will be able to provide assistance of venture capital of Rs. 100 crore.

(11) State Level Venture Capital Funds :- In India various state level venture capital funds have been established by the State Governments after realising the significance and role of venture capital in industrial development. These venture capital funds have been promoted by state government. A few among them are :

(1) Gujarat venture Finance Limited (GVFL) : Under venture capital funds sponsored by state level financial institutions is GVFL promoted in July, 1990 to provide venture capital for the commercialisation of new technological developments and innovative products. It shares risk of entrepreneurs by providing financial assistance in the form of equity and quasi equity.

(2) Punjab Infotech Venture Fund (PIVF) : PIVF is dedicated to investing in companies in the Information

Technology Sector within the State of Punjab. The Fund's investments in companies will be through the route of equity and quasi equity instruments. The Fund will seek to achieve its returns through dividends and capital gains at the time of divestment through an initial public offering or a negotiated sale of its holding. The Fund is being managed by Punjab Venture Capital Limited, an asset management company, promoted by the PSIDC acting as the nodal agency of the Government of Punjab.

(111) Specific Venture Capital Funds Despite of Commercial Banks, Private Sector Banks and Financial institutions are also providing venture capital funds to entrepreneurs. Some of these VCFs are :

(i) India Investment Fund which is established by Grindlays Bank and afterwards it was taken over by Standard Chartered Bank.

(ii) Credit Capital Venture Fund established by Credit Capital Corporation.

(iii) Technology Development and Information Co. Ltd. At present around 16 private sector funds are registered with SEBI and this number is expected to grow faster.

Difference Between Traditional and Venture Capital

Basis of Distinction	Traditional Financing	Venture Capital Financing
Technology	Traditional Financing Provides funds to new or untried technology.	
Risk	It involves low risk.	It involves high risk.
Security	The lender adopts a policy of 'playing safe' and insists on some valuable collateral security for repayment of loan amount.	This is not necessary to demand security for venture capital financing.
Participation in Management	Investor does not take any responsibility for management of the borrower's enterprise.	The venture capitalist actively involves himself in the management of borrower's firm.
Finance Stage	It is provided in the developmental stage.	Basically it is provided inthe start-up stage, although it is also given for expansion, development or traditional acquisition purpöses
Period	it is generally a medium-term finance	It is a long-term financing.

Amount of Funds	Traditional lenders provide small funds.	Venture capitalists provide huge funds.
Relations	They maintain conditional commercial relations.	They maintain long- term business relation- ships with entrepreneurs.

(5) Explain the Venture Capital Fund.

(6) According to SEBI or Securities and Exchange Board of India, Venture Capital Fund is a Fund registered in the form of a company or corporation or trust according to the guidelines of SEBI and :

(7) Have a sufficient fund of capital;

(8) Collect the fund according to the prescribed rules of SEBI;

(9) Invest Funds according to the rules laid down by SEBI.

(10) A venture capital fund can be constituted in the form of a trust or a company. Venture capital fund appoints on asset management company to manage the portfolio of the fund. A venture capital fund should have Rs. 5 crore (Rs. 50 million) before it can start venture capital activities. As per guidelines issued by the Central Board of Direct Taxes, a venture capital fund could invest upto 40% of the Paid up capital of investor company or upto 20% of the corpus of the fund in one venture.

(11)

(12) Various documents required for venture capital.

(13) Venture capital process is different from normal project financing. Tyebjee and Bruno (1984) have given a model of venture capital investment activity which, with some variations, is conmonthly used at present. According to them the venture capital investment process is a sequential process that involve five steps. Documents required at each stage are as follows :

(14) Deal Orientation : At this stage, a letter of introduction is necessary from the referring party sent to the Venture Capital Company. It should present details about the potential venture, its technical viability and good image of the entrepreneur.

(15) Screening : Screening of proposals is necessary to save the time and money cost. Only proposals which clear screening test are considered for evaluation. At this stage the Venture Capital Company may ask for technology and product profiles as well as venture or investment profile depending on the criteria used in the screening process.

(16) Evaluation or Due Diligence : Evaluation or due diligence means careful and proper detailed analysis, The proposals that have successfully passed through the screening process are then subjected to a detailed evaluation process called due diligence. Most of the venture coming to a venture capitalist are new ventures being set up by first-time promoter, neither the ventures have any track record nor the entrepreneur are have any operating experience. In such cases, the venture capital company uses a subjective but comprehensive evaluation. At this stage the Business Plan is an important document upon which the evaluation is based. Most venture capitalists ask for a business plan to make an assessment of the possible risk and return on the venture. Well prepared plan is the best introduction of the entrepreneur who is going to set up a new venture. A detailed and well-organized business plan is the only way to gain the attention Of the venture capitalist and to obtain the needed funds.

(17) Deal Structuring : If the proposed venture and its business plan are found as viable, then venture capitalist and the entrepreneur negotiate the terms of the deal, such as : the amount Of money to be invested, the form of investment (equity or debt), the price of Investment, exit period, etc. This process is termed as deal structuring. At this stage, a written agreement is prepared between the entrepreneur and the venture capitalist. This contains all the terms and conditions agreed between them. This agreement is written on a stamp paper, signed by both and is registered with the government agency. It is treated as a valid evidence before a court of law in case of a dispute.

(18) Explain the Seed Capital.

(19) Seed Capital is relatively small amount of capital provided to an entrepreneur, generally to prove a concept or an idea. According to The European Venture Capital Association "Seed Finance is the fiancing of the initial product development or the capital provided to an entrepreneur to prove the feasibility of profitability; seed capital in other words is a start up capital. " According to Mumford and Dotzler, "seed capital is used to finance initial research and development on the concept, build a prototype, to market research analysis the business plan. " Seed Finance stage is the most difficult stage to finance because (i) the entrepreneur's idea is yet to take a definite and commercial shape, (ii) he has no business plan, (iii) his product has recently passed through research and development stage (iv) there is yet no complete management team. When an entrepreneur who does not have adequate funds of his own, approaches the suppliers of seed capital with his proposal. It is the riskiest stage of venture capital because returns from seed capital investments typically don't start to come through for seven to ten years.

(20) Advantages of Venture Capital

(21) They bring wealth and expertise to the company

(22) Large sum of equity finance can be provided

(23) The business does not stand the obligation to repay the money

(24) In addition to capital, it provides valuable information, resources, technical assistance to make a business successful

(25) Disadvantages of Venture Capital

(26) As the investors become part owners, the autonomy and control of the founder is lost

(27) It is a lengthy and complex process

(28) It is an uncertain form of financing

(29) Benefit from such financing can be realized in long run only

(30)

(31)

(32) Forms of Ownership

(33)

(34) A key first step for any entrepreneur is setting up an organization that will be used to formally embark on the business journey, but many new business owners struggle to identify the best way to move forward. These are the most common ways to organize a business, from the simplest through the most complex.

(35) Sole Proprietorship

(36) A sole proprietorship is the most basic form of business ownership, where there is one sole owner who is responsible for the business. It is not a legal entity that separates the owner from the business, meaning that the owner is responsible for all of the debts and obligations of the business on a personal level. In exchange for that liability, the owner keeps all the profits gained from the business. This form of business ownership is easy and inexpensive to create and has few government regulations, making it a more flexible type of ownership with complete control at the discretion of the owner. In addition, profits are taxed once, and there are some tax breaks available if the business is struggling. Sole proprietorships often are limited to the resources the owner can bring to the business. For these reasons, sole proprietorships are often most appropriate during the early stages of a business where the owner has little capital/resources to work with but also has few debts to pay.

(37)

(38) Partnership

(39) Partnerships are a form of business ownership where two or more people act as co-owners. There are two forms of partnerships, which are General Partnerships and Limited partnerships, differentiated primarily by the liability coverage by the owners. In a general partnership, all owners of the business have an unlimited liability in the business (the same as a Sole Proprietorship). For a limited partnership, at least one of the partners has a limited liability, meaning they are not personally responsible for the debts of the business. Regardless of the type of partnership, they are relatively easy and cheap to create, have few government regulations and are only taxed once, like a sole proprietorship. The added benefit of a partnership is the combination of knowledge and resources that are brought to the table thanks to the additional owners. Profits do have to be shared between owners and there is always the potential for conflicts to arise between partners over business decisions. This type of ownership is often useful in the early stages of the business where multiple people are involved. Due to the sharing of profits and the additional resources, this type of ownership is often expected to yield higher growth rates then a sole proprietorship.

(40)

(41) Corporations

(42) Unlike the previous two examples, Corporations are a form of ownership that is a legal entity separate from its owners. This creates a limited liability for all owners, but results in a double taxation on profits (first as a corporate income tax, then as a personal income tax when the owners take their profits). Corporations tend to have an easier time raising capital then sole proprietors or partners in large part due to the greater sources of funding made available to them, such as selling stock. However, this does result in greater government regulations for corporations, such as requirements for more extensive record keeping. In addition, setting up a corporation is much more difficult, requiring more resources and capital to cover expenses and create legal documentation. This ownership form is best suited for fast growing or mature organizations that have owners looking for limited liability.

(43)

(44) Limited Liability Company

(45) A form of business ownership that is taxed like a partnership but enjoys the benefits of a limited liability like a corporation is a "limited liability company". In comparison to a corporation, it is simpler to organize and does not receive double taxation. While simultaneously receiving more credibility then a partnership or sole proprietor when it comes to gathering resources such as working capital. Unfortunately, this form of ownership is usually reserved for a group of professionals such as accountants, doctors and lawyers.

(46) S Corporation

(47) A lesser known ownership style, an S corporation is a type of business ownership that allows its owners to avoid double taxation because the organization is not required to pay corporate taxes. Instead, all profits or losses are passed on to owners of the organization to report on their personal income tax. This form of ownership does allow for limited liability, similar to a corporation, but without the double taxation. The disadvantages of this organization's special nature is the increased level of government regulations and the restrictions on the number and type of shareholders it may have. This type of ownership is used in the mature stage of a business's lifecycle and often by private organizations due to the restrictions on ownership.

(48) Franchise

(49) Franchising is a form of ownership far different from the ones previously mentioned. This form of ownership allows a franchisee to borrow the franchisor's business model and brand for a specified period. It comes with a list of advantages including: training on how to operate your franchise, systems and technologies for day-to-day operations, guidance on marketing, advertising and other business needs, and a network of franchise owners to share experiences with.

(50) The main disadvantages to this ownership structure are franchising fees, royalties on sales or profits, and tight restrictions to maintain ownership. Franchise owners also have limited control over their suppliers they can purchase from, are forced to contribute to a marketing fund they have little control over. If a franchisee wants to sell their business, the franchisor must approve the new buyer. Despite these disadvantages, franchises are great for owners who are looking for an 'out of the box' to owning their own business.

(51) Co-operative

(52) Cooperatives are organizations that are owned and controlled by an association of members. This form of ownership allows for a more democratic approach to control where each share is worth the same amount of votes, similar to a corporation with common stock. It also offers limited liability to its owners and equal profit distribution based on ownership percentage. Disappointingly, the democratic approach to decision making results in a longer decision making process as participation from all association members is required. Conflicts between members can also arise that can have a big impact on the efficiency of the business. Co-operatives are often used when individuals or businesses decide to pool resources to achieve a common goal or satisfy a common need, such as employment needs or a delivery service.

Meaning of Entrepreneurial Behaviour

UNIT – 3

Behaviour is a manifestation of what a person thinks, feels and acts. An entrepreneur is a creative person. Need for self actualisation as manifested in the need for achievement forces him to create something new, a new product, a new way of doing things, a new source of raw material, a new market etc. Behaviour is always caused and is never spontaneous. Behaviour is basically goal- oriented. Entrepreneurial Behaviour includes the goal-oriented acts or decisions of an entrepreneur. The entrepreneurial behaviour means the manners or way in which the entrepreneur deals with its total environment : internal and external. It is the way or approach to look at the physical and human resources and the society. The entrepreneurial bvehaviour is a view of or orientation towards risk-bearing, innovation, achievement, goal-setting, ethics, social responsibility, motivation, challenges and values cf human society, and other psychological elements.

Characteristics of Entrepreneurial Behaviour

The entrepreneurial behaviour is different from the capitalist’s behaviour. The capitalists assume a traditional or conservative approach. He believes in “safe-playing” while investing his money in the enterprises. He is concerned mainly with his share of interest on his investment. On the other hand, entrepreneur loves to take risk and tends to establish a new enterprise and adopts a new technology, or a new product, or tries to find cut a new raw material. He is always looking out for a new thing or a new method. He is a high achiever. He is guided mainly by achievement motivation. Main characteristics of entrepreneurial behaviour may be summarised as follows :

(1) Intitiative Behaviour : It is the entrepreneur who takes or imitate the first move towards setting up of an enterprise. Entrepreneur basically is an innovator who carries out new combinations to initiate and accelerate the process of economic development.

(2) Challenge accepting behaviour : Entrepreneurs take problem as a challenge and put in their best for finding out the most appropriate solution for the same. They will first of all understand the problem and then evolve appropriate strategy for overcoming the problem.

(3) Assertive Behaviour : An assertive person knows what to say, when to say, how to say and whom to say. He believes in his abilities and ensures that others fall in line with his thinking, aimed at promoting the interests ofthe organisation.

(4) Persuasive Behaviour : A successful entrepreneur through his sound arguments and logical reasoning is in a position to convince others to do the works the way he wants them to do. It is not physical but intellectual force he will use for convincing others.

(5) Effective Monitoring : Entrepreneurs ensure that everything is carried out in their organisations as per their wishes. They ensure regular monitoring of the working so that the goals of the organisation are achieved in best possible manner.

(6) Looking for Opportunity : An entrepreneur is always on the look out or searching for opportunity and is ready to exploit it in the best interests of the organisation.

(7) Persistence : An entrepreneur is never disheartened by failures. He believes in the Japanese proverb

‘Falls even times, stand up eight’. He follows Try-Try Again for overcoming the obstacles that come in the way of achieving goals.

(8) Information Seeker : A successful entrepreneur always keep his eyes and ear open and is receiptive to new ideas which can help him in realising his goals.

(9) Quality Consciousness : Successful entrepreneurs do not believe in moderate or average performance. They set high quality standards for themselves and then put in their best for achieving these standards. They believe in excellence, which is reflected in everything they do.

(10) Recognizing the importance of Business Relationships : Entrepreneur acts to build repport or friendly relationships with customers. He sees interpersonal relationships as a fundamental business resource. He places long-term goodwill over short-term gain.

(11) Commitment to Work : Successful entrepreneures arc prepared to make all sacrifices for honouring the commitments they have made. Whatever they commit, they take it as a moral binding for honouring their commitments, irrespective of the costs innolved.

(12) Independent Behaviour : Entrepreneurial behaviour posseyses strong need for independence and due to this desire they are motivated to start a business. They always concentrate to achieve their goals.

Psychological factors to affect the entrepreneurial behaviour.

The behaviour of an entrepreneur is dependent largely on his psychology and motives which are the main determinants of be. haviour. These motives are based on needs for survival and growth. The movements of an entrepreneur are affected by the psychological background. Many theorists Akouri, McClelland, Javillionar & Winter have given views related to psychological factors as follows :

(1) Achievement Motive : Achievement motive is most important for an entrepreneur. It is this motive which motivates people to do something different and extraordinary so that one may feel that he has achieved or created something which others are not able to do..lt motivates an entrepreneur to take an initiative for innovation. It also makes one personally responsible for his actions and performances. It helps to develop self-reliance and develops the spirit of risk-taking which is very -essential part of entrepreneurial behaviour, one will not establish a unit unless he is prepared to take risk.

(2) Desire to Influence Others : Strong desire of the need for power, helps a person to become a successful institution builder, Thus, it is necessary that an entrepreneur must have the ability of self-management with a strong will power. Thus, they possess a strong desire towards the need of influencing others.

(3) Desire for Independence : Entrepreneur possesses strong desire for independence and it is only due to this desire that they are motivated to start a new business. According to psychologists, the feeling of independence is acquired by them through the family atmosphere. Due to this they do not want to work under anyone rather they like to work independently.

(4) Innovation : This is an important psychological factor Of entrepreneurs. Generally, an entrepreneur does those acts which are not taken up by other persons. They transform the creative ideas into useful applications. Accordmg to Schumpeter, a person is an entrepreneur only when he is an innovator, engaging himself in an innovative behaviour. Thus, innovative behaviour is an entrepreneurial behaviour,

(5) Hope for Success : Entrepreneurs are always hopeful for future success. They work for being successful which enlightens them with the confidence, positive attitude and high energy level. Hope for success makes their behaviour strong and stable.

(6) Calculated Risk Taking : Entrepreneur is a person who is always in a position to accept challenging job, He works on those projects only, which are risky but have a probability of success through their efforts. He does not rely on those ventures, which totally depends on chance. In other words, the entrepreneur belives in calculated risk-taking.

(7) Immediate feed back : Entrepreneur wants immediate feedback of the progress of his entrepreneurial targets so that he can improve the way of achieving the targets and his behaviour changes according to the situations.

(8) Self-Efficacy : An entrepreneur has a drive for self-efficacy. They want to become the problem solver, instead of problem avoiders. They do not want to copy others but they want others to copy them. Further they feel proud of their achievements and live in the present.

(9) Self-Expression : The desire for self-expression appears to be a common thread and may help explain why so many men and women prefer to work for themselves than for someone else.

(10) Self Confidence : Entrepreneurs believe in themselves. They have confidence that they can outdo anyone in their field. They tend not to accept the status quo, believing instead that they can change the facts. Often, they insist the odds are better than the facts would justify. They have winning habits. On the basis of self-confidence, they become overachievers.

(11) Different Way : Although all people are different, entrepreneur is different from all others. They judge the world in terms of their own beliefs, values and expectations. A good entrepreneur behaves like human being rather than rational machine. They sce their work world differently. They differ in their psycho-personalities, needs, time periods, social surroundings and perception.

Meaning and Definition of Innovation

Innovation is the process of taking a creative idea and turning it into a useful product, service or work method. It implies doing new things, It includes introduction of new products, creation of new markets, application of new method of production, discovery of new and better sources of raw materials and developing a new and better form of industrial organisation. Innovation may be used on the application of knowledge produced by research. Innovation is different from invention. Invention implies discovery of new ideas, new products and new methods whereas innovation refers to the application of inventions to make new combinations and thereby produce satisfaction and profit. According to Paul E. Plsek, "Innovation is the first, practical, concrete implementation of an idea done in a way that brings broad-based, extrinsic recognition to an individual or organisation." In the words of Peter F. Drucker, "Innovation is the means by which the entrepreneur either creates new wealth-producing resources or endows existing resources with enhanced potential for creating wealth. '

Characteristics of Innovation

On the basis of above discussion, it can be concluded that :

(i) Innovation implies action, not just conceiving new ideas.
(ii) It is a process of changing, experimenting, transforming and revolutionising.
(iii) It is a key aspect of entrepreneurial activity,
(iv) It is a "creative destruction".
(v) It leads to technological changes and employment growth*
(vi) It is a pervasive attitude, feeling, an emotional state, an ongoing commitment to newness,

Relationship between Innovation and Entrepreneur

Increasingly, creativity and innovation are seen as being the key to survival in an ever-more competitive and global economy. In fact change and innovation are becoming a 'way of life' for most entrepreneurs. An entrepreneur always takes a personal responsibility for encouraging any type of innovative idea, product, or process in the enterprise. Peter Drucker has rightly observed that "Innovation is the specific tool of entrepreneurs, the means by which they exploit changes as an opportunity for a different business or a different service. It is capable of being presented as a discipline, capable of being learned and practised. Entrepreneurs need to search purposefully for the sources of innovation, the changes and their symptoms that indicate opportunities for successful innovation. kid they need to know and apply the Principles of successful innovation." Drucker is of the opinion that an entrepreneur is one who always searches for changes responds to it andexploits it as an oppor tunity. Innovation is treated as an instrument of entrepreneurship. R.M. Kanter says, “Winning in business today demands innovation” and such is the stark reality facing today s entrepreneurs. In the dynamic, chaotic world of global competition, entrepreneurs must create new products and services and adopt new technology, ifthey are to compete successfully, The organisation that is not creative and innovative may not survive. Thus, entrepreneurs are looking for ways to encourage and foster in creativity and innovation on both the individual and the venture level. Thus it can be concluded that innovation and entrepreneurs are indispensable to each other. Both are useless and incomplete in absence of one another.

Psycho-Theories and Entrepreneurial Behaviour

Entrepreneurial behaviour is influenced by many psycho-concepts such as perception, motivaticn, optimism, conditioning, cognition, self actualisation or other psychological thoughts, These psychological processes influence the thinking and behaviour of entrepreneur. Main psycho-theories of entrepreneurial behaviour may be d •scussed as follows

(1) Achievement Theory of McClelland : This theory was propounded by David Mc-Clelland in his book, ‘The Achieving Society’. He states that people who persued entrepreneur like careers were high in need achievement. The n-achievement is called a desire to do well, not so much for the sake of social recognition or prestige but for the sake of an inner feeling of personal accomplishment. It is this motive of n-achievement that guides the action of entrepreneur. People with high achievement behave in an entrepreneurial way. They do things in a new and better way. They make decisions under uncertainty. Entrepreneurs with a high-need to achieve feel that their success or failure is due to their own actions. McClelland indicates that there are five major component to the need achievement trait. (i) responsibility for problem solving, (ii) setting goals, (iii) reaching goals through one’s own effort, (iv) the need for and use of feedback, and (v) a preference for moderate levels ofrisk-taking. Thus people with high need for achievement are motivated to be an entrepreneur.

(2) Self-Monitoring Theory : Self-monitoring is a personality trait that measures an individual’s ability to adjust his behaviour to external situational factors. This theory states that high monitor entrepreneurs can be more successful in entrepreneurial jobs and managerial positions where they are required to play multiple roles, They tend to display their true dispositions and attitudes in every situation. The high self-monitor entrepreneur is capable of putting on different faces for different audiences.

(3) Risk-Propensity Theory : Risk-propensity is the to which an individual is willing to take chances and make risky decisions. An entrepreneur with a high risk propensity might be villing to experiment with new ideas and gamble on new products He might also lead the venture in new and different directions Thus, risk taking-whether financial, social or psychological is an impatantpart ofthe entrepreneurial behaviour. (4) Motivation Theory : People differ not only in their ability to do, but also in their will to do or motivation. Motives are the mainsprings of action. Entrepreneurial motivation may be defined as a set ofmotives, needs, urges or desires such as need for power, to earn money or to be one’s own boss, to dominate and influence others by earning industrial power etc. These behavioural dimensions motivate the people to start a new venture.

(5) Role Models and Support Systems Theory : Every entrepreneur has a choice of a role model. He follows and learns for the behaviour of his role model. Many new entrepreneurs need guidance and moral support. In addition to moral encouragement, the entrepreneur needs advice and counsel throughout his entrepreneurial behaviour. Each entrepreneur needs to establish both a moral and a professional support network. These contacts provide confidence, support, advice, and information. As one entrepreneur stated, “In your own business, you are all alone. There is a definite.need to establish support groups to share problems with and gain overall support for the new venture. ”

What is the difference between Innovation and Invention ?

Innovation is not similar to invention. Main points of difference between invention and innovation may be summarised as follows :

(1) Nature of Activity : Invention is the creation of something new, whereas innovation is the economic exloitation of the new idea or resource; in other, words, innovation is the transformation of an idea or resource into useful commercial applications.

(2) Results : Invention results in new knowledge Whereas, innovation results in the products, services, or processes.

(3) Position : All inventors are not innovators, while all innovators are inventors.

Social Responsibility

The business or entrepreneur is a part of society. Business is performed in the society, for the society, with resources of the society. The society also provides the opportunity for development and expansion of the business. Hence, business has specific responsibilities for the local community and place, where the business is performed.

Every enterprise, are either in private or the public sector should make efforts to improve the conditions of the public of the surrounding areas, should arrange employment for unemployed and should help the needy person.

James and stoner said, "Values are a relatively permanent desire that seems to be good in them". Social Responsibility implies that business man should oversee the operation of an economic system that fulfils the expectations of the public. - W.Fredick

Social Responsibility has been defined by Andrews "By social Responsibility, we mean the intelligent and objective concern for the welfare of society that restrains individual and corporate behaviour from ultimately destructive activities, no matter how immediately profitable, and leads in the direction of positive contributions to human betterment, variously as the latter may be defined."

Ethics And Social Responsibility For An Entrepreneur Social Responsibility means eliminating corrupt, irresponsible or unethical behaviour which might harm to the community, its people and the environment.

1) Public Image. The activities of an entrepreneur towards the welfare of the society earn goodwill and reputation for the business. People prefer to buy products of a company that engages itself in various social welfare programs. Again good public image also attracts the honest and competent employees to work with such employers.

2) Employee Satisfaction. Employees are the part of the society. If you satisfy your needs, then you are doing social work.

3) Ethical Leadership. It is the belief that what entrepreneur does has a strong influence on employees. If manager cheats, Lies, steals or manipulates, then they are sending wrong signals to employees.

4) A social Entrepreneur is an individual or organization who seeks out opportunities to improve society by using practical, innovative and substantial approaches. Since last three decades, HDFC contributes 7% of its income to support community needs. Mahindra Tech employees donated one day salary to help victims of Bihar floods. Wipro has set up a foundation named Azim Premji Foundation to help improve education of the elementary schools in rural India.

5) Environment Management. Managers and Organizations can do many things to protect and preserve the natural environment which includes plastic less business by giving paper bag, creating eco-friendly product, by eliminating production.

6) Consumer Awareness. Consumers have become very conscious about their rights. If you are giving high quality products at cheap rate, that is kind of social Responsibility

Causes of Growing Concern for Social Responsibility

- Social responsibility is a very effective exercise of public relations.
- Image building of a business house in a society.
- Two-way activities, CSR make the upliftment of society, which in turn will co-operate with business firm in achieving their business goals.
- To make the best use of natural resources so as to raise the level of national income and standard

living of people.

- To create more and more employment opportunities for semiskilled people
- To protect the ecology of nation.
- To contribute to the economic development of backward region of the country.

Social Responsibilty of an Entrepreneur Towards Different Sections of The Society

1. Responsibility towards Employees:

- Fair wages and salaries
- Adequate Basic Facilities like safe drinking water, electricity, canteen, hygienic toilets.
- Skill development programmes.
- Good and safe working environment.
- Retirement benefits and pension schemes
- Collective bargaining
- Insurance cover
- Medical facilities

2. Responsibilty Towards Customers:

- Charge reasonable price for products or services.
- Supply of right quality of goods in right quantity.
- No use of manipulated or false advertisements.
- Avoid unfair selling practices.
- Fair guarantee of product

3. Responsibility Towards Shareholders:

- A fair return on investment.
- Safety of invested capital.
- Regular and complete information about the performance and progress of the company.
- Regular Payment if dividend

4. Responsibility Towards Suppliers, Creditors:

- Maintain healthy and co-operative inter-business relationship between different businesses. Provide accurate and relevant information to creditors.
- Payment of price of materials on time.
- Prompt payment of interest on borrowed funds.
- Producing original documents for credit processing.

5. Responsibility Towards Public in General:

- Help the weaker section of the society.
- Creation of job opportunities.
- Improvement in living standards.
- Building of basic infrastructure like roads, sewerage.
- Health and educational development schemes.
- To make best use of society’s resources for their welfare.

6. Responsibility towards Government:

- Payment of corporate tax in correct amount with no manipulation of profit figures.
- To avoid corrupting public servants by offering bribe.
- To encourage fair trade practices.

- To avoid monopoly practices.
- To improve national income.

Top Companies Follow CSR Practices In India Mahindra & Mahindra

Key CSR Areas: Focus on the girl child, youth and farmers through programs in the domains of education, public health and environment. Mahindra Pride Schools provide livelihood training to youth from socially and economically disadvantaged communities and have trained over 13,000 youth in Pune, Chennai, Patna, Chandigarh and Srinagar.

L&T

Key CSR Areas: Water and sanitation, education, healthcare and skill building. L&T partners with local governments on health programs focused on reproductive health, tuberculosis & leprosy control, integrated counselling & testing centres for HIV/ AIDS. L&T's community health centres are located at Mumbai, Thane, Coimbatore, and Chennai.

Infosys

Key CSR areas: Works with Infosys Foundation, headed by Sudha Murty, towards removing malnutrition, improving healthcare infrastructure, supporting primary education, rehabilitating abandoned women and children and preserving Indian art and culture. Infosys Foundation USA is focused on bridging the digital divide in America by supporting computer science education and training in underrepresented communities.

Jubilant Life Sciences

Key CSR Areas: The Jubilant Bhartia Foundation (JBF) focuses on elementary education, improving health indices, employability and promoting social entrepreneurship. Jubilant CSR programs are implemented around its manufacturing locations in six areas in India.

Bharat Petroleum

Key CSR Areas: Quality education (strengthening primary, secondary education and empowering teachers), water conservation, skill development (employment linked skill training to the underprivileged with an inclusive approach for women, unemployed youth and persons with disabilities), health/hygiene and rural development

Conclusion All the Entrepreneurs should consider ethics and social responsibility as their part of life. Doing business legally and ethically will lead a development to the country. The entrepreneur should do business without affecting the society. We all have an image of our better selves-of how we are when we act ethically or are"at our best". We probably also have an image of what an ethical community, an ethical business an ethical government, or an ethical society should be Creating ethical organizations and governments makes our society as a whole ethical in the way it treats everyone. The government also should take necessary steps for the development and welfare of Entrepreneurs.

Entrepreneurship Development Programme (EDP)

Entrepreneurship Development Programme (EDP) is a programme which helps in developing the entrepreneurial abilities. The skills that are required to run a business successfully is developed among the people through this programme. Sometimes, people may have skills but it requires polishing and incubation. This programme is perfect for them. This programme consists of a structured training process to develop an individual as an entrepreneur. It helps the person to acquire skills and necessary capabilities to play the role of an entrepreneur effectively. As per National Institute of Small Industry Extension Training, Hyderabad, an EDP is an effort of converting a person to an entrepreneur by passing him through a thoroughly structured training. An entrepreneur is required to respond appropriately to the market and he/she is also required to understand the business needs. The skills needed are varied and they need to be taken care in the best possible way. EDP is not just a training programme but it is a complete process to make the possible transformation of an individual into an entrepreneur. This programme also guides the individuals on how to start the business and effective ways to sustain it successfully.

Objectives of EDP

The objective of this programme is to motivate an individual to choose the entrepreneurship as a career and to prepare the person to exploit the market opportunities for own business successfully. These objectives can be set both in the short-term and long-term basis.

- Short-term objectives: These objectives can be achieved immediately.In the short-term, the individuals are trained to be an entrepreneur and made competent enough to scan existing market situation and environment. The person, who would be the future entrepreneur, should first set the goal as an entrepreneur. The information related to the existing rules and regulations is essential at this stage.
- Long-term objectives: The ultimate objective is that the trained individuals successfully establish their own business and they should be equipped with all the required skills to run their business smoothly.

The overall objectives of EDP are mainly to help in rapid industrialisation by supplying skilled entrepreneurs. At the same time, it also industrialises underdeveloped areas. The performance of small and medium scale industries are expected to improve by this and therefore providing a huge scope of employment generation in these sectors. This programme primarily aims at providing self-employment to the young generation.

An Entrepreneurship Development Programme primarily plays four roles to help an individual to become an entrepreneur. They are:

A. Stimulatory Role: It aims at influencing people in large number to be the entrepreneur. This includes:

1. developing managerial, technical, financial, and marketing skill
2. inculcating personality traits
3. promotes and reforms entrepreneurial behaviour and values
4. identifying potential entrepreneur applying scientific methods
5. motivational training and building proper attitude
6. strengthening the motive of a person and giving recognition
7. the valuable know-how of the local products and the processes help in selection of products, preparation of project reports

B. Supportive Role: It helps in the following ways:

1. registration of the business
2. procurement of fund
3. arrangement of land, power, water, shed etc.
4. support in purchase of right kind of machinery and equipment
5. supply of raw materials and common facilities
6. Providing tax relief, subsidy etc.
7. guidance in product marketing
8. support for management consultancy

C. Sustaining Role: It aims at providing an effective safeguard to businesses to sustain against the cut-throat market competition. This includes:

1. help in modernisation, expansion, and diversification
2. additional financing for further development
3. deferring interest payment
4. creating new marketing processes
5. helping access to improved services and facility centres

D. Socio-economic Role: It aims at upgrading the socio-economic status of the public and includes:

1. identifying entrepreneurial qualities in practicality
2. creating employment opportunities in micro, small, and medium industries on an immediate basis
3. arresting concentration of industries by supporting regional development in a balanced manner
4. focusing on the equal distribution of income and wealth of the nation
5. channelizing the latent resources for building an enterprise

The Govt. of India has established specialised institutions to boost up the rate of entrepreneurial development in India like NIESBUD in Noida, MSME-DI for small scale industries, NIMSME in Yousufguda, Hyderabad, EDI, NSTEDB, IED and CED in different states.

Role and relevance of entrepreneurial development programme

Role and relevance of Entrepreneurial Development Programme (EDP) in the process of economic development and growth of a nation is immense. Various EDPs are designed to develop and improve entrepreneurial skills and behavioural adjustment needed to go through the stresses of initial stages. Different programmes are designed for different trades, industries and big projects.

Basically the EDPs are meant to train and develop new entrepreneurs who act as catalytic agents in the process of industrialization and economic growth. It is the entrepreneur who organises and puts to use capital, labour and technology in the best possible manner for the setting up of his enterprise. The entrepreneur with his vision and ability to bear risk can transform the economic scene of the country. They play a vital role in initiating and sustaining the process of economic development of a nation. It is the EDP through which the entrepreneurs learn the required knowledge and skill for running the enterprise successfully which ultimately contribute towards economic progress in the following ways:

1. Creates employment opportunities:

The basis problems of most of the developing countries like India are poverty and unemployment. Entrepreneurship development programmes can help the unemployed people to opt for self-employment and entrepreneurial as a career. EDPs help solving the problem of unemployment by creating adequate employment opportunities in setting up of their own small and big industrial unit where the unemployed are absorbed.

In this way EDPs help the entrepreneur to get an opportunity to lead on independent and respectable life in the society and at the same time enable others to get gainful employment. Various programmes, schemes like PMRY (Prime Minister's Rozgar Yojana), NREP (National Rural Employment Programme) and IRDP (Integrated Rural Development Programme) etc. have been initiated by Government of India to eliminate poverty and solve the problem of unemployment.

2. Helps in achieving Balanced Regional Development:

Successful EDPs assist in accelerating the pace of industrialisation in the backward areas and helps in reducing the concentration of economic power in the hands of a individual. Government encourages to set up industries in the backward areas to remove wide gap of income and wealth between the rich and poor. The various concessions subsidies offered by the State and Central Governments prompted the entrepreneurs to up their own small and medium industrial units in the rural and backward areas. EDPs in setting up more and more industrial units in the backward areas lead to the develop of rural sector which helps in achieving balanced regional development.

3. Prevents Industrial Slums:

The towns and cities are highly congested and overcrowding due to the growth of industrial slums which results in overburdening of civic amenities and a lot of problems including adverse impact on the health of the people. EDPs help in solving the above problems by preventing the growth of industrial slums through dispersal of industrial units in different parts of the country including backward and rural areas. EDPs help entrepreneurs to know about the various schemes, incentives, subsides and infrastructural requirements for setting their enterprises, particularly in backward and rural areas. This checks migration of rural people to urban sector and thus controls the growth of industrial slums.

4. Use of Local Resources:

Plenty of locally available resources remain unutilized due to absence of initiative and lack of adequate knowledge by the entrepreneurs. Proper use of these resources will help to starve out a healthy base for rapid industrialisation and sound economic growth. EDPs can help in the proper use of locally available resources by providing proper training, guidance and education to the potential entrepreneurs.

5. Easing social tension:

EDPs help in channelizing on right lines the talent and energies of unemployed youth »1io feel frustrated after completing their education without a job or source of livelihood. Unemployment and frustration amongst the young and educated people lead to social unrest Lid tension. EDPs help in diverting the talent of the youth towards self-employment careers by establishing their own enterprises and thus creating employment opportunities for the unemployed. In this way EDPs are able to defuse the social tension and unrest among the youth.

6. Economic Independence:

The entrepreneurs through EDPs are able to achieve economic independence of a country by producing a wide variety of better quality goods and services at competitive prices. They also through export promotion and import substitution able to earn and save urge amount of foreign exchange which is essential for the growth and development of any economy.

7. Capital formation:

The various development banks like ICICI, IDBI, IFCI, SFC, SIDC and SIDBI take initiative in promoting entrepreneurship through assistance to various agencies involved in EDP and by providing financial help to ne entrepreneurs. It is impossible to start a new enterprise without sufficient funds. Entrepreneurs are the organizers of factors of production who employ their own and borrowed money for setting up of new ventures. All this results in the process of capital formation.

8. Improves the standard of living and per-capita income:

EDPs provide the necessary support to entrepreneurs by educating them about the test innovation and techniques of production to produce a large variety of quality goods id services at competitive prices. EDPs also help in establishing more enterprises which ad to provide more employment opportunities and help in increasing the earning of the people. It will result in increase in per-capita income and thus helps in the improvement of standard of living of the people.

9. Helps in the overall development of the nation:

Entrepreneur acts as a catalyst which helps in enhancing the various activities involved a business enterprise. In recent years EDP package, have become a vital strategy for harnessing the vast untapped human skills, and put them into industrial development. It results in the emergence of entrepreneurial opportunities in various fields which leads to all-around development in a country.

10. Helps in searching and exploiting opportunities

There are many opportunities for entrepreneurs in various fields like-Electronics, medicine, engineering, agriculture, food technology and packing, communication etc. EDPs help in searching such opportunities and provide necessary information, guidance and assistance in the search and exploiting these opportunities.

11. Enhancing managerial abilities

Entrepreneur development programmes help the entrepreneurs to enhance their organizing and managerial abilities so that they can run their enterprise efficiently and successfully. This is done through organizing educational management training and orientation programmes. Various specialized agencies like National Institute for Entrepreneurship and small Business Development(NIESBUD),New Delhi and Entrepreneurship Development Institute of India(EDII), Ahmedabad are engaged in entrepreneurship programmes.

Achievements of Entrepreneurship Development Programmes

The speed at which industrialization has taken place in recent years is due to the major role played by EDP's. Following are the major achievements of EDP's:

- EDP's played an important role in establishment, development and expansion of the practice-oriented development programme In India almost all the training programmes conducted are organized and developed under EDP's.
- EDP's have also developed and established various support systems necessary for the entrepreneurs.

They strengthen and coordinate these support systems.

- EDP's have not only created a background for industrialization but have also given momentum to it.
- These programmes have also contributed a lot to solve the problem of unemployment. EDP's have helped to a great extent in this direction by starting self employment programmes and giving momentum to the speed of industrialization.
- Another achievement of these programmes is establishment and development of new enterprise which is a very difficult task in this competitive era. EDP's have provided various inputs to establish new enterprises and also provided various entrepreneurial skills and qualities.
- Entrepreneurial education and training has spread because of entrepreneurial development programmes. This has resulted in increase in the knowledge, imaginative power, farsightedness, risk taking ability of the entrepreneurs etc.
- EDP's have also contributed in project formulation. Choosing a right type of project is a difficult task as resources are limited. EDP's have proved very useful in such situations.
- EDP's have helped in balanced regional development by encouraging people to establish small industries in villages and backward areas.
- Another important achievement of EDP's is availability of cheap and quality product to the consumer. Due to EDP's new ventures have been established which have new technology and expertise which results in increase in competition.
- Many entrepreneurship development institutions have been established because of the EDP's in India. The major among them are Management Development Institute, National Institute of Entrepreneur and Small Business Development (NIESBUD), Entrepreneurial Development Institute of India (EDII), Technical consultancy organization (TCO) etc.

Role of government in Organizing EDP's Critical Evaluation

Government plays a very important role in developing entrepreneurship. Government develop industries in rural and backward areas by giving various facilities with the objective of balances regional development. The government set programmes to help entrepreneurs in the field of technique, finance, market and entrepreneurial development so that they help to accelerate and adopt the changes in industrial development. Various institutions were set up by the central and state governments in order to fulfill this objective.

Institutions set up by Central Government

1. Small industries development organization (SIDO)

SIDO was established in October 1973 now under Ministry of Trade, Industry and Marketing. SIDO is an apex body at Central level for formulating policy for the development of Small Scale Industries in the country, headed by the Additional Secretary & Development Commissioner (Small Scale Industries)under Ministry of Small Scale Industries Govt. of India. SIDO is playing a very constructive role for strengthening this vital sector, which has proved to be one of the strong pillars of the economy of the country. SIDO also provides extended support through Comprehensive plan for promotion of rural entrepreneurship.

2. Management development Institute(MDI)

MDI is located at Gurgaon (Haryana).It was established in 1973 and is sponsored by Industrial Finance Corporation Of India, with objectives of improving managerial effectiveness in the industry. It conducts management development programs in various fields. It also includes the programmes for the officers of IAS,IES, BHEL, ONGC and many other leading PSU's.

3. Entrepreneurship development institute of India (EDI)

Entrepreneurship Development Institute of India (EDI), an autonomous and not-for-profit institute, set up in 1983, is sponsored by apex financial institutions – the IDBI Bank Ltd., IFCI Ltd., ICICI Bank Ltd. and the State Bank of India (SBI). EDI has helped set up twelve state-level exclusive entrepreneurship development centres and institutes. One of the satisfying achievements, however, was taking entrepreneurship to a large number of schools, colleges, science and technology institutions and management schools in several states by including entrepreneurship inputs in their curricula. In the international arena, efforts to develop entrepreneurship by way of sharing resources and organizing training programmes, have helped EDI earn accolades and support from the World Bank, Commonwealth Secretariat, UNIDO, ILO, British Council, Ford Foundation, European Union, ASEAN Secretariat and several other renowned agencies. EDI has also set up Entrepreneurship Development Centre at Cambodia, Lao PDR, Myanmar and Vietnam and is in the process of setting up such centres at Uzbekistan and five African countries.

4. All India Small Scale Industries Board(AISSIB)

The Small Scale Industries Board (SSI Board) is the apex advisory body constituted to render advise to the Government on all issues pertaining to the small scale sector.It determines the policies and programmes for the development of small industries with a Central Government Minister as its president and the representatives of various organization i.e. Central Government, State Government, National Small Industries Corporations, State Financial Corporation,Reserve Bank of India, State Bank of India, Indian Small Industries Board, Non government members such as Public Service Commission, Trade and Industries Members.

5. National Institution of Entrepreneurship and Small Business Development(NIESBUD),New Delhi

It was established in 1983 by the Government of India.It is an apex body to supervise the activities of various agencies in the entrepreneurial development programmes.It is a society under Government of India Society Act of 1860.The major activities of institute are:

i) To make effective strategies and methods
ii) To standardize model syllabus for training
iii) To develop training aids, tools and manuals
iv) To conduct workshops, seminars and conferences.
v) To evaluate the benefits of EDPs and promote the process of Entrepreneurial Development.
vi) To help support government and other agencies in executing entrepreneur development programmes.
vii) To undertake research and development in the field of EDPs.

6. National Institute of Small Industries Extension Training

It was established in 1960 with its headquarters at Hyderabad. The main objectives of national Institute of Small Industries Extension Training are:

i) Directing and Coordinating syllabi for training of small entrepreneurs.
ii) Advising managerial and technical aspects.
iii) Organizing seminars for small entrepreneurs and managers.
iv) Providing services regarding research and documentation.

7. National Small Industries Corporation Ltd. (NSIC)

The NSIC was established in 1995 by the Central Government with the objective of assisting the small industries in the Government purchase programmes. The corporation provides a vast- market for the products of small industries through its marketing network. It also assists the small units in exporting their products in foreign countries.

8. Risk Capital and Technology Finance Corporation Ltd.(RCTFC)

RCTFC was established in 1988 with an authorized capital of 15 crores rupees. The main objectives of RCTFC are provision of risk capital for the extension and expansion of entrepreneurial development and venture capital for the projects with high techniques for technology development and transfer.

9. Natioanl Research and development corporation (NRDC)

NRDC was established in 1953 under Department of Science and Industrial Research under Government of India. Its main objectives are:

i) Providing assistance in technology transfer
ii) Transfer of technology
iii) Establishing relations with various technology institutions and collecting various indigenous techniques

developed by them.

10. Indian Investment Centre

This is an autonomous organization established by Central Government.Its main objective is to assist in promoting foreign cooperation with Indian entrepreneurs and providing necessary information to foreign entrepreneurs.

11. Khadi and village industries Commission(KVIC)

Khadi and Village Industries Commission established by an Act of Parliament in 1956.It is a service organization engaged in promotion and development of Khadi and Village Industries in rural areas. Its main objectives are:

i) Providing employment in rural areas.
ii) Improvement of skills
iii) Rural Industrialisation
iv) Transfer of Technology
v) Building strong rural community base and self reliance among rural people.

12. Indian Institute of Entrepreneurship (IIE)

It was established by the Department of Small Scale Industries and Agro and Rural Industries in 1953.It is autonomous organization with its headquarters at Guwahati. Its main objective is to undertake research, training and consultancy activities in the field of small industry and entrepreneurship.

13. Miscellaneous Organisation

In addition to above various organizations at all India level are assisting and are engaged in entrepreneur development. These include ICICI, IFCI, SIDBI, UTI, IDBI, IIBI etc.

14. National Alliance of Young Entrepreneurs(NAYE)

It has sponsored number of entrepreneurial development scheme in collaboration with various public sector banks. The main objective of the scheme is to encourage young entrepreneurs to explore investment and self – employment opportunities .It arranges for their training and assists them in procuring necessary finance.In 1975 NAYE also set up a Women’s Wing to make women self-relaint and to raise their status.

15. Centre for Entrepreneurial Development(CED) Ahmedabad

It was sponsored by the Government of Gujrat and public financial institutions operating in the State.It conducts entrepreneurial development programmes at various centres.The important features of training programme are:

i) Training programmes were conducted after survey for opportunities was made.
ii) Appropriate linkage was established with supporting agencies supplying finance,factory sheds,raw materials, etc.
iii) Behavioural tests were conducted to select the entrepreneurs.
iv) Training programmes covered theoretical and practical aspects.
v) Full time project leader took follow up action after the training was over.

16. Institute for Entrepreneurial Development (IED)

It was set up by the IDBI in association with other financial institutions, public sector banks and the State Governments. The IEDs was set up to fulfil the entrepreneurial development needs of the industrially backward States in the country.

17. Technical Consultancy Organisation (TCOs)

A network of TCOs has been established by All India Financial Institutions and State Government throughout the country. These organizations have been set up to provide comprehensive package of services to entrepreneurs in general and to small business entrepreneurs in particular. Their main functions include the following:

i. Identifying potential industrial project.
ii. Preparing project reports,feasibility reports and pre-investment status.
iii. Identifying potential entrepreneurs.

iv. Providing technical and administrative support.
v. Conducting techno-economic studies of the projects.
vi. Conducting market research and surveys.
vii. Rendering advice to set up laboratories and design centre.

18. Public Sector Banks.

Public sector banks in association with NAYE have been conducting entrepreneurial development programmes. The main thrust of these banks has been to identify potential entrepreneurs in rural and backward areas. For example Punjab National Bank started entrepreneurial assistance programme in March 1977 in th States of West Bengal and Bihar. Similarly, Bank of India started entrepreneurial assistance programme since August 1972 in the States of Punjab, Rajasthan, Himachal Pradesh, J&K and the Union Territories of Chandigarh and Delhi.

The important Forms of entrepreneurial assistance are:

i) Identifying potential entrepreneurs
ii) Identifying viable projects.
iii) Assisting in preparation of project profiles
iv) Helping in project evaluation.
v) Arranging practical training.
vi) Financing the projects.

B) Institutions set up at State Level

There are a number of institutions establishes at state level for organizing, developing, developing, assisting and making successful entrepreneurial development programmes. Prominent among these are:

i) Small Industries Service Institute (SISI)
ii) State Financial Corporation (SFC)
iii) State Small Industries Corporation (SSIC)
iv) District Industries Centres(DIC)
v) Technical Consulting Organisation Ltd. (TCO)
vi) Industrial Directorates
vii) Commercial and Cooperative Banks
viii) State Industrial Development Corporation
ix) Industrial Estates
x) State Industries Corporation

The above mentioned State and Central level Institutions have provided a number of concessions and facilities to promote entrepreneur development in India.They have also played an important role in balanced industrial development in the country.

UNIT - 4

Introduction

An Entrepreneur plays a vital role in economic growth of a country. He collects and exploits the natural and human resources and then through innovation he utilizes these resources in an optimal manner. He provides or generates lot of employment amongst people and bring stability in economy.

Through establishing new industries and venture in far flung and backward areas, he plays a prominent role in export promotion and import substitution. An entrepreneur uses innovation and advanced technology in reducing cost of production and maintaining quantity of product as well as quality of product.

Thus, an entrepreneur does all those efforts which can pursue the pace of economic growth, employment creation, balancing regional development and maintaining economic stability.

The term economic growth implies growth in any economy. The rising way of trend per capita income and gross income in certain time period is called economic growth. Economic growth of a nation is never by accident. It is always a matter of design. It is brought about by persistent effort of the Govt. in general and of entrepreneur in particular. It is important because the society has not been able to sustain the well-being of its people without continuous growth, so economic growth is a requisite for growth and prosperity.

Actually, economic growth is a means to an end, and the end is human development. It contributes in poverty reduction when it expands the employment productivity and wages of poor people.

In the process of entrepreneur growth of a country, the entrepreneur plays a motivator role. The process cannot proceed onwards without the active support of the entrepreneur.

Joseph A. Schumpeter says that, “the rate of economic progress of a nation depends upon its rate of innovation which in turn depends upon distribution of entrepreneurial talent in the population.”

There are different types of development in an economy i.e., human development infrastructure development, social development, industrial development and economic development. An entrepreneur plays their role as catalytic agent in the process of economic development. In recent time, the role of an entrepreneur has been appreciating day by day.

Role of an Entrepreneur in economic growth as an Innovator

The word ‘Innovator’ we mean such “Entrepreneur who continuous to make some new changes or creations in his business, like production of new commodity, new technologies of production, new machinery, and equipment, new raw material for searching of new resources of semi- finished commodities, new management system, new organizational setup new markets etc. Innovating entrepreneurs bring about Revolution or improve the methods of production by executing new inventions.

An innovating entrepreneur is a person who searches new products, new raw materials, new markets and adopts new changes and improvements in the new ventures.

The entrepreneur is a promoter and innovator both. He is the agent of economic growth & changes in society.

The role of the entrepreneur as innovator is highly important in simulating economic stability, industrial awakening and social innovations.

According to Joseph Schumpeter, “An entrepreneurship is a creative activity and an entrepreneur is an innovator who introduces something new in an economy.”

According to him, innovation may be in:

i. Introducing a new manufacturing process that has not been tested and commercially exploited.

ii. Introducing a new product with which consumers are not familiar or introducing a new quality in an existing range of products.

iii. Opening a new market where company products were not sold earlier.

iv. Locating a new source of raw material or semi-finished products.

v. Developing a new combination of means of productions. Thus, it is clear that an entrepreneur is essentially an innovator.

A brief description of the role of the entrepreneur as an innovator is as follows:

1. To Create Novelty in Society -

The basic function of the entrepreneur is to create something new. He develops new products, brings out product diversifications and carries out of business technical innovations by Research and studies. As a result, Industrial Development takes place.

2. Production of Commodities and Services -

Since the entrepreneur is an innovator also, he is not only carrying out new inventions in his business activities but also makes the production of the products and services according to the needs of society. He perceives changes in economic and social life and takes initiations required in the changed atmosphere, by perceiving various economic, social circumstances. As a result, the wheel of economic progress goes on moving consistently.

3. To Use the National Resources for Productive Activities -

As an innovator, the entrepreneur has an important contribution in the economic progress of the nation by the establishment of new industries and generation of employment and use of national resources for productive activities to satisfy social and economic needs of the country.

4. Establishment of Successful Units -

The innovating entrepreneurs symbolize and creative awakening. They believe to go ahead on the new path, rather than move on the absolute path. Hence, they provide vitality to their business units. As a result, they run their business in a successful manner.

5. Organizing and Coordinating the Resources of Production -

As an innovator, the entrepreneur organizes and coordinates the resources of production, to maximize output, at the minimum cost. Entrepreneurs also contribute to increasing National Productivity, by their managerial capabilities and efficient utilization of unutilized resources.

6. Base of Industrial Development -

The innovating entrepreneurs have the readership quality to develop the resources of the enterprise, human capabilities, and generation of new ideas. New ideas emerge due to creativity but due to lack of leadership abilities, these do not become the base of industrial progress. The entrepreneur can build up the enterprising organization only by leadership, administrative capacities, and creativities.

7. Expansion of Organisations -

The entrepreneurs Incur substantial expenditure on research and studies to encourage innovations. As a result, scientific and business ideas are encouraged among people and their technical know-how is upgraded. Innovations emerge as a result of such research activities and creative ideas. Adoption of new techniques of production, in place of obsolete techniques, also become easier and production of new products and diversification is introduced to expand the small organization.

8. Accomplishment of Business Activities -

In a small business, the liability, innovations, and risks of a single person. But large scale business at National and International levels total risks beared by a group of persons, not by any individual. Hence, business activities are accomplished by the group of persons, by Organising in the form of establishment of companies, partnership firms are co-operative societies etc.

9. Consumption of New Products and Services to Society -

The entrepreneur is the creator and the innovator, so he introduces the new products, new ideas, new markets and new production techniques to the society and living standard is raised, but also execute the research and development activities, for that. As the outcome of all these, society gets the opportunity to consume a series of new commodities and services and consequently, the standards of living of the society rise substantially.

10. Economic Prosperity of the Nation -

Innovative entrepreneurs start new enterprises to go ahead by removing the hurdles and disturbances arising in their ventures. Besides, they also accept the challenges and as well as improve their own performance by introducing the innovations. They also contribute to the overall prosperity of the nation. The innovator entrepreneur has significant importance in the industrial progress of the nation.

11. To Make the Economic System Highly Dynamic -

The innovator entrepreneurs make the economic system of the country highly dynamic since they use new raw materials, new techniques, and machinery in production. They provide new products and services, adopt new internal and external Strategies and also used new distribution policies. So, the economic system becomes dynamic.

12. Existence of Business -

In the modern business world, innovator entrepreneurs are making new experiment and improvements in production techniques, machinery, equipment, Technology, finance, and Technical inputs. As a result, not only various complexities have emerged in the business, but it has also become essential that the firm continues to maintain the capacity to compete. The existence of the modern business is impossible without attaining entrepreneurial abilities, in this age of fast changes and innovations.

13. Dynamic Leadership to the Business -

The good entrepreneur posses two main qualities. The capacity to bear risks and to sponsor new units. But, in the modern age, the innovator entrepreneurs link the business with society and the environment. Hence, they establish new industries within their business, search the new opportunities and take decisions in the context of social values. So, business gets the dynamic leadership of entrepreneurs.

14. Catalyst Elements -

Wealth in the society is generated by the entrepreneurs and poverty gets reduced. Besides, the optimum utilization of resources and development of the self-sufficient society also become possible.

15. Social Responsibility and Satisfaction -

The entrepreneur as an innovator may perform social obligations and may provide satisfaction to the society by creating new values, activities, and utilities also.

KINDS OF ENTREPRENEURS AS INNOVATORS

The innovators are as following types:

1. Initiator Innovators

Initiator innovators are those entrepreneurs who themselves do not perceive the innovations, but he enters in the process of expansion of new innovations and participates in the diffusion process of development of the use of the innovations.

2. Prime Mover Innovators

Prime mover innovators are those entrepreneurs who create something new with some differences, like the production of new products, new methods of production, and new machinery and implements, new raw materials and search of the new market, etc. Such entrepreneurs engaged constantly to search for new improvements in their business. They are creators of new values.

3. Minor Innovators

Such entrepreneurs who slightly act as innovators do not take innovations at a large scale but ensure the best use of the resources of the society to uplift the society.

4. Satellite Innovators

Satellite innovators are such entrepreneurs who act as the supplier or the intermediary, but gradually start the business or the subsidiary industries independently.

5. Local Trading Innovators

The local trading innovator is the person who keeps his business activities (Trade, commerce, industries, and direct Services) Limited to a particular area. He has no courage to move to another place.

Role of an Entrepreneur in generation of Employment Opportunities Unemployment is a global phenomenon and has emerged as a burning problem of the day. Unemployment is a common problem whether it is backward economy, developing economy or even in developed economy.

This problem of unemployment is becoming serious day by day. An entrepreneur generates employment opportunities both directly and indirectly. Economic growth does not always lead to employment. It must be created in the field like agricultural sector, industrial sector, small scale industries, education and health, information technology.

Employment can be generated in organised sectors and unorganised sectors and their role in employment generation are as follows:

1. Establishment of New Business and Industries:

Somebody said truly that “Business is a game of skill which cannot play everybody.” For gene- rating employment, entrepreneur sets up small and large size of industries and business and provides employment to millions of people. Thus entrepreneurship is the best way to fight the evil of unemployment and generate employment opportunities in the country.

2. Increment in National Income:

National Income refers to produced product and services in a country in a specific year. The manufactured products and services are consumed in domestic level and exported to other countries. By introduction of innovation, product quantity and variety is improved and as the increase in population, demand is also increased, so as to meet out the demand of product. Production also increases and generates more employment amongst people.

3. Balanced Regional Development:

When the industrial developments are limited to few areas, in this situation, the only concerned area is developed condition. Through innovation, entrepreneurship develops both public and private sector and reduced economic disparities of nation. They get benefit and incentives which are given by government, when an entrepreneur starts industries in backward areas.

4. Diffusion of Economic Strength:

The whole world has been controlled by economic powers. We can divide the strength in two parts:

a. Physical Strength

b. Economic strength.

The main resource of economic strength is industrial and commercial activities which makes economies strong on development basis. But the rising trends of entrepreneurs helps in decentralising power and remove monopoly tendency amongst rich countries. Entrepreneurs establish new units in different areas of world and generate employment in unemployed mass.

5. Generating Employment:

For making the economic growth, entrepreneur establishes different types of industries and business and generates employment to millions of people.

6. Improvement in Living Standard:

By establishing new type of industries and using innovation, an entrepreneur produces necessary products & services and removes their deficiency from market. They produce branded and sound quality products at cheaper cost and make easy approach to customer and assist in increasing the living standard of people.

7. Economic Freedom:

An entrepreneur does all the efforts in creating the environment of economic freedom. For this purpose, entrepreneur encourages to produce more sound products/services within country facing the competition at international level.

He emphasises on production at minimum cost and standard full product, he adopts product diversification technique and through more production, fulfills internal demand and meet also external demand. By selling the products in foreign countries he earns foreign currency and assists in maintaining economic freedom in country.

8. Creativity and Innovation:

Creativity and Innovation are abilities of bringing renovation. Through innovation, an entrepreneur makes something new and creativity is the prime stage of innovation. Creativity is valueless when it is not to be converted into product and services.

9. Assistance in Development of Infrastructure:

Infrastructure plays an important role in economic development. Infrastructure includes insurance, banking, industry and transpiration facilities, energy.

10. Establishing New Industries and Business Units:

An entrepreneur sets up new type of business and industrial units and assists in transferring the production factor in productive function. Without active participation of entrepreneur, all factors are just like rock.

11. Innovation Promotion:

For innovation an entrepreneur emphasize on research & development and encourage innovation. By innovation, he makes new things, introduce new production techniques, plant, raw material, new technology, search new market etc.

Role of Entrepreneur in Supplementing And Complementing Economic Growth In recent decades, the role of an entrepreneur has been to supplement and accelerate the pace of growth and economic development in both the developed and developing countries When an entrepreneur sets up an industrial or service unit it helps in economic growth. Similarly, when economy grows it creates opportunities for further growth. Thus, every economic growth has a multiplier affect; one complements the other and one supplements the other. When an entrepreneur establishes a bank it complements other economic activities as it helps further growth. When any engineering and electronic unit is set up it requires components from large number of manufacturers. In most engineering, electronic and electrical industries like T. V. , refrigerators, computer growth of one large unit gives birth to a number of ancillary units. This is true not only for engineering and electronic industry but also for steel, textiles, chemicals, food processing and so on. Along with complementary development there is also supplementary development. When a spinning mill is set up it leads to development of thread units and cloth weaving units. When a computer hardware industry is developed it leads to the growth of software industry. The development of software industry led to its exports from India in a big way. Thus, one leads to growth of another activity.

The role of entrepreneurs not only complements but also supplements the economic growth of the country in the following manner:

1) Generation of employment. Entrepreneurs become self-employed and self-sufficient. They do not depend on the government jobs or private jobs and directly employ themselves by starting their own enterprises. In fact, they also privet jobs to many unemployed by setting up large and small scale industrial. Thus, entrepreneurs play an important role to reduce the unemployment problem in the country and pave the way for economic development.
2) Capital formation. Entrepreneur’s efforts to mobilize the capital results in motivating the investors to divert their ideal savings in the industrial enterprises. Investment of public saving in industrial sector helps the country to use financial resources for productive purposes. The growth rate of capital formation will be increased which is highly essential for rapid economic development of a country. It is in the sense that entrepreneurs grenade capital at a rapid rate and capital formation increases which is vital for the industrial development.
3) Increasing per capita income.
4) Improvement in physical quality of life.
5) Improvement in standard of living.
6) Growth of infrastructural facilities.
7) Initiating change in the economy.
8) Forward and backward linkages. It is the entrepreneur who initiatives change and this to maximize his profits by innovations. Setting up of an enterprise in accordance with the changing technology has several backward and forward linkages. For example, the establishment of a textile unit generates several ancillary units and expands demand for cotton, chemicals, dyes, etc.
9) Development of backward areas.
10) Economic Independence.

Role of Entrepreneur in bringing about Social Stability

Being an entrepreneur social, human being ultimately the aim is the development of a happy and prosperous society. He is also a part of this society. He gets inspiration from society and develops in society. So, he has to play a contractor role in the economic development of society. Two types of people live in society. The first category is of such persons who carry out positive and constructive activities and the second category is of destructive persons. The first category people do something distinctly visible. They aspire not only for their own happiness but also wish to see happy others and prosperous. The second type of people carries out destructive activities in society. They create a disturbance, instigate people against each other and become Furious on one pretext or the other, causing bad effects for society. The entrepreneur always desires the maintenance of social stability with good results.

For that, an entrepreneur fulfills the following roles:

1. Establishing Self Sufficient Society

The self-sufficient society may be established by the productivity revolution in areas of production in the country. For that, the entrepreneur increases the production in the business Enterprises, fulfill the requirements of the local community, encourage Savings and capital formation, contribute towards export promotion and import substitution, etc. So, the dream of the establishment of a self-sufficient society gets materialized.

2. Establishing Ethical Values of the Society

The entrepreneur establishes the ethical values for the society to ensure social stability. For that, he stresses maintaining moral values, ideals, and Standards in the conduct of persons associated with various business activities. The entrepreneur is a part of the whole value system of society.

3. Contribution to Social Development

Entrepreneurs are developing in the Society and Society is developed by entrepreneurs. So, he not only works for the development of the local society but a society of the whole world. He makes the best possible utilization of physical and human resources, with the utmost economy, providing employment to local people and also fulfilling his social responsibilities towards various groups of society.

4. Changes in Social Framework

The entrepreneurs bring out changes in the social Framework by innovative activities. They lead society towards progress by the introduction of new products, new markets, new techniques, new sources, and the establishment of new industries.

5. End of Evils

The empty mind is the devil’s workshop. A Starving person can do any bad work, like, theft, dacoity, loot, murder, abduction etc. By the establishment of new industries and expansion of the existing industries and making the production of new products, the entrepreneurs may provide employment to such persons and may divert their attention towards creativity. It will raise the standard of living of such people, which will be helpful in removing several social evils. Employment is a path to the creation of moral values in society.

6. Less Economic Problems

Society still prevails many social evils existing in the big cities, like – class conflicts, polluted environment, slum areas, and social crimes etc. These may be reduced by the establishment of various business undertakings by the entrepreneurs. Besides, social evils like dowry and intoxication in the villages may also be curbed by the establishment of Enterprises and development of entrepreneurship tendencies in the villages and the attention of people can be diverted towards savings and capital formation, etc.

7. Increase in Employment Opportunities

The entrepreneurs increase the opportunities for employment. They help in increasing the employment opportunities through the establishment of new Enterprises and expanding the existing establishments.

8. Removal of Poverty

The entrepreneurs provide maximum opportunities for employment to the unemployed persons, both directly and indirectly through the development of new products and expansion of new Enterprises and the markets. As an effect of all these, poverty gets reduced in the country. The entrepreneurs enlarge the path of economic progress, through which the country gets rid of the vicious circle of poverty.

9. High Standards of Living

The Entrepreneurs have given of materialism in society through new techniques, new products, and inventions. As a result, the living standards of the people can be upgraded in society. It has contributed to a better quality of life.

10. Social Changes

Creative changes are being accepted in society always. The entrepreneur is a creative agent of Social Change. The traditional superstitions and misbeliefs come to end and social stability is established.
Thus, the entrepreneur always desires the maintenance of social stability with good result. So, the different Role of Entrepreneurs in Bringing Social Stability is important.

Role of Entrepreneur in Balanced Regional Development of Industries

An entrepreneur is a person who perceives for a new product or service and also finds out financial sources for establishing the business for production of the product and service. The entrepreneurs know, how to avail the opportunities, and to establish any viable industry in any viable area. So, Entrepreneurs in Balanced Regional Development of Industries, play a very big role.
The role of entrepreneurs in the balanced development of the industries may be explained as follows:

1. Knowledge of Market Conditions

An entrepreneur has full knowledge about the markets, like – where is the good market for a particular product, where particular product and services are to be produced, what will be the cost of production for a product at that place, to what extent the labour and capital will be available in the area, what is the likely demand for the commodity, what should be the price of the commodity, etc. Extend and type of competition and the measures to win the competition, etc. Entrepreneurs establish industries in those Areas, where most of the factors are favorable to him. As a result, the balanced development of industries becomes possible.

2. Advantages of Government Policies and Facilities

The government also committed for balanced regional development of industries. To achieve the goal, various types of policies have been formulated. Governments have also provided various types of facilities allotment of land at concessional rates, provision of basic infrastructural facilities at the allotted place, easy availability of various resources, finance facilities at reasonable rates of interest, exemptions from taxes, the supply of modern techniques and machinery on installment, good facilities for marketing, etc. The entrepreneur may come forward to avail these facilities for the establishment of new industrial units and expansion of the existing units. So, the balanced development of the industries becomes possible.

3. Utilization of Different Resources

The nature has bestowed all countries and areas with one or the other resources, free of cost, of course, in varying degrees. Besides, economic and physical resources are also available in all areas. The entrepreneurs use various resources in the production of various commodities and services, since he possess entrepreneurial qualities. As a result, balanced regional development of industries takes place in the country.

4. Constructive Changes in Social Structure

Several constructive changes have occurred in the social structure, due to the role of the entrepreneur. The society has become industry oriented, misbeliefs have reduced, several obsolete traditions have come to an end. As a result, the entrepreneurs do not hesitate to bear risks and establishing industries in far flung areas.

5. Activeness in All Areas

The efforts of the entrepreneurs cause spread of activeness in all areas of life. They provide opportunities for leading free life to people, as well as to make the society self sufficient.

6. Evolution of Multiform

Nature has several diversities, but uniformity in its various elements may also be observed. The entrepreneurs assess these diversities and use of them for the prosperity of human being, various capabilities and qualities, like, intelligence, sharp memory, foresightedness, dedication, courage, knowledge of various new techniques, awareness towards the opportunities, knowledge of market conditions, etc. As a result, uniform development of industries becomes possible and regional imbalances also can be reduced.

7. Establishing Self Sufficient Society

The entrepreneurs have an important role in the establishment of a self sufficient society, the reason being that they fulfill the requirements of the society and also increase the Exports.

8. Help in Removing Regional Disparities

The entrepreneurs have an important role in removing the geographical disparities in the economy. Entrepreneur may available various facilities to etablish industries in such areas, like, no industry districts. Besides, the government also attract private entrepreneurs for establishing industries in backward areas. For that, land and capital provided to them at concessional rates. Exemption in taxes and various types of subsidies are also provided for the establishment of industries in the backward areas. All these efforts are helpful in the development of backward areas.

Thus, in balance regional development of industries, entrepreneurs are playing a very important role.

Role of Entrepreneur in Export Promotion

An entrepreneur plays an important role in export promotion and import substitution.

Export Promotion refers to that effort which is done by an entrepreneur for removing imbalance by increasing export and decreasing import. It may be defined as the govt. policy designed to encourage the exporters to export more goods from the country than previous or it refers to policies and measures which can result into maximum increase in the exports of a country.

Objectives of Export Promotion:

1. Correction of unfavourable balance of trade
2. Reduction of foreign loans
3. Achievement of self-reliance
4. Exporting new products
5. Defraying the cost of defence imports.
6. Ensuring successful planning.

Export promotion reduces unfavourable balance of trade, decrease imports and increase exports. It also increases valuable foreign currency reserves. There are various facilities, incentives, and subsidies which are provided by central govt. and state govt. in the field of export promotion. The Government offers the benefits of incentives, concession and subsides.

Role of an entrepreneur in export promotion are as follows:

1. Removing the Trade Imbalance:

The entrepreneurs play an important role in case of removing the trade imbalances. More production is the right way of export promotion. If an entrepreneur wants to promote the export, he can do with the more production, standardisation, brand, low production cost. "More production with low production cost with higher standard quality." By this way, an entrepreneur helps in removing the trade imbalance. Under trade balance only goods are included, services are not the part of trade. But in increasing production, entrepreneur can sell surplus production to other nation and adjust the due amount.

2. Reduction in Import:

An entrepreneur plays an important role in reduction of import. He imported raw material, manpower, machinery, tools, equipment, expertise and fished goods from other nations at high cost. In this situation entrepreneur should exploit natural resources by using domestic manpower and reduced cost of production. It would be reduced import in future.

3. Economic Development:

Economic independence is the symbol of economic development. Entrepreneur can produce more output and meet out the internal and external demand, and earn foreign currency. To fulfill the respective purpose both private and public sector should enhance all infrastructure facilities (energy, industry, transportation, communication and Banking) which is helpful in achieving the targets.

4. Increment in Foreign Currency Fund:

An entrepreneur plays an important role in increasing foreign currency fund. We get foreign currency from the export promotion. If govt. is promoting the export policy, in this situation, entrepreneur collect the foreign currency fund by producing more and sound products and services.

5. Introduction to Innovation:

An entrepreneur should adopt innovation by introducing new combination of goods. By adopting innovation entrepreneurs promotes new product, goods and product exchange and diversification of product in venture.

6. Advance Technology:

An entrepreneur should adopt advance technology for standardization of product with the less cost of production. By this way, entrepreneur gets improved advance technology, by adopting advanced plant, machinery, equipment etc.

7. Appreciation in Production and Productivity Level:

An entrepreneur can play a vital role in appreciating production and productivity level. To meet this purpose, entrepreneur establish project in Export Oriented Unit or Export Processing Zones or free Trade Zones (FTZ). Such units may be engaged in manufacturing, software development, horticulture, agriculture, aquaculture, animal husbandry etc.

EOU and EPZ are industrial estate where export oriented units are taken various incentive. If investment is done in 4 cases, govt. gives facility like less tax or no tax or rebate in tax 100% exemptions; and other facilities.

i. Export Oriented Units (EOU)
ii. Export Processing Zone (by Central Govt.)
iii. Special Economic Zone (SEZ)
iv. Trade Free Zone (TFZ)

Govt. provides the following facilities to above export oriented projects:

i. Single window system for paper formalities
ii. Raw material at cheaper price.
iii. Market and transportation facility
iv. Plant & Machinery
v. Credit facility
vi. Low rate of interest on loan

If there is an increase in production, employment and removing trade imbalances, govt. launches policies like EOU, EPZ and SEZ, then export promotion can be done.

8. Low Production Cost:

If entrepreneur exploit natural and human resource efficiently, it will give their return in high production at low cost instead of import at high rate and high cost of production.

9. Enhancing Foreign Competition Capacity:

If entrepreneur use the internal resources for production with sound quality, he can sell surplus out to other country and make a challenge in front of foreign nation at international level by sound, cheaper, durable and standard products.

10. Increasing Export:

Entrepreneurs are required to play an important role in export promotion. Export promotion reduces unfavourable balance of trade (i.e., only goods are included and services which are ignored or all visible items are included). It also increases valuable foreign currency reserves.

For motivation and increasing export promotion, govt. provides specific facilities and incentive to an entrepreneur. Both Central Govt. and State Government are provided concerned facility and incentives in the field of export promotion. There should be increasing number of old and new entrepreneurs lacking benefits of incentives, concessions and subsides. In this way Govt. has launched few programmes such as EOU, EPZ, FTZ, SEZ.

EOU — Export Oriented Unit EPZ — Export Promotion Zone FTZ — Free Trade Zone

SEZ — Special Economic Zone

11. Introduction to Industrial Culture and Corporate Service:

An Export Processing Zone (EPZ), free Trade Zones (FTZ), Special Economic Zone (SEZ) established by Central and State Govt. are industrial estates where export oriented units take various facilities such as tax exemptions, duty drawback, no import duties, no quantitative restrictions.

There are some important facilities provided to units in FTZ or EPZ:

i. Suitably developed plant and buildings.
ii. Single point clearance of new projects within 45-60 days.
iii. No license needed for import of capital goods etc.
iv. Duty free import of capital goods and equipment.
v. Complete exemption from income tax.
vi. Assured power supply.
vii. Export finance at confessional rate of interest.
viii. Market facilities
ix. Single window system for documentation formalities.

Export processing zones have been established at the following places:

i. Kandla free Trade Zone
ii. Santa Cruz Electronics Export Processing Zone.
iii. Export Processing Zone at Chennai.
iv. Export Processing Zone at Cochin.
v. Export Processing Zone at Noida (U.P.)
vi. Export Processing Zone at Falta (W .B.)
vii. Export Processing Zone at Vishakhapatnam (Andhra Pradesh).

12. Rising trend of internal trade.

13. All benefits to customers such as reasonable and durable product, less price product and standard quality.

At last but not the least, we conclude that an entrepreneur plays a vital role in export promotion and import substitution by establishing developing and expanding industries which can produce such goods which is easily used as import substitution.

Role of Entrepreneur in Import Substitution

Entrepreneur is the most important factor in the economic development of the country. He plays a very important and catalytic role in activating the factors of production leading to the overall economic development. The entrepreneur organises and utilises the various factors and sets productive machinery in action. The availability of entrepreneurs, therefore, is the precondition of economic growth.

According to Prof. Schumpeter, the supply of entrepreneur depends on the rate of profit and social climate. It is profit that induces the prospective entrepreneur to get into the business and start new activities or expand the existing activities. Profit, therefore, is a factor which induces the entrepreneur to organise and utilise the factors of production for development.

Entrepreneur is an innovator with a certain achievement motive and that achievement motive may also mean something more than money. Social climate also plays its role in attracting prospective entrepreneur to innovate, assume risk and face the music of uncertainty.

According to Prof. Schumpeter, there is high degree of risk and uncertainty in economic world and in this context, entrepreneurial behaviour is important as development is a discontinuous process which itself proceeds with spurts.

Entrepreneurial behaviour has a role in ensuring the change required by the development process. Entrepreneur brings innovation or technical know-how to introduce new products and new combinations of production factors. Economic system has a reservoir of unused technical inventions which can be early utilised by the entrepreneurs. According to Prof. Schumpeter, “It is no part of his function to find or to create new possibilities. They are always present, abundantly accumulated by all sorts of people.”

Entrepreneur also mobilises capital source to have a command over factors of production. Prof. Schumpeter rightly observed that entrepreneur needs credit because credit promotes industrial development which in turn delivers new goods. So, resource mobilisation efforts of entrepreneur also ensure the better good effective utilisation of resources available in the country which further celebrates the pace of economic development.

The role of entrepreneurs in import substitution can be assessed in the following ways:

1. Saving of Foreign Exchange:

Entrepreneurs are also producing goods and services which can be used for those products which are being imported from foreign country. By producing substitute products and services, entrepreneurs try to save valuable foreign exchange. At a later stage, consumer becomes habitual of substitute products.

2. Creation of Employment Opportunities:

When entrepreneurs produce the goods and services in the country which can be used as a substitute of the imports, employment opportunities are generated in the country and utilisation of capital also becomes possible.

3. Increase in National Income:

Import substitution efforts also help to save foreign exchange which ultimately leads to increase in national income. Any increase in national income improves the well-being of the society. It also enables the country to optimize the use of available resources in the country.

4. Self-Reliance:

Import substitution reduces the dependence on imports from foreign country. Various entrepreneurial activities for increasing production and services not only reduce the dependence on imports from foreign countries, but also reduce the foreign exchange crisis. It also motivates other potential entrepreneurs to get involved in these activities.

5. Accelerating the Pace of Industrialization:

Import substitution efforts accelerate the pace of industrialization in the country. Entrepreneurs are generally encouraged by the incentives and subsidies to work for import substitution efforts. They invest more capital to enlarge the scale of production. In this way, they try to supply quality goods and services to the society and thereby restricting the imports and thus, saving the foreign exchange.

Suggestions to Improve Import Substitution:

Following suggestions are to be implemented to make the import substitution more effective:

1) Priority should be given to production of those goods which are not being produced in the country. For this purpose foreign collaboration should be encouraged in each and every desired segment.
2) Incentive for import substitution should be allowed on the lines of cash incentive scheme.
3) Concessional funding arrangement should be given to those production units which are engaged in production of goods under import substitution.
4) Import duty should be reduced with reference to goods under import substitution.
5) Exemption in custom and excise duties should be given in case of raw materials used for production of goods under import substitution.
6) Concessional tariff policy should be formulated for import of coal etc.
7) Necessary exemptions should be allowed in income tax, sales tax and additional depreciation for production of goods under import substitution.

Role of Entrepreneur in Forex Earnings

Forex earnings (i.e. foreign exchange earnings) has been playing a prominent role in growth and development of any economy. Forex earnings means arrival or introduction of foreign currency. For increasing the foreign earning the Govt. has launched LPG policy (Liberalization, Privatization and Globalization). Along with time to time industrial policy is also introduced and amended. To make the economy more competitive, increasing production, productivity and efficiency, an entrepreneur adopts ultra-modern technique and technologies.

The primary object of new industrial policy is to create confidence in the Indians and foreign industrialists.
Increasing space of global village ensures free movement of man, material and money from one country to another country. Saving of foreign exchange is also necessary to check the vicious circle in import-export. Improving entrepreneurial behaviour leads to higher level of production and increases the earning of foreign exchange.

In this context, role of entrepreneurs can be assessed in following ways:

1. Production of Products and Services:
Entrepreneurs produce the goods and services. They are using their surplus production for exports. Export efforts enable them to identify the further scope of exports of other products. Thus, exports create temptation among the entrepreneurs to produce a variety of products and services for earning more foreign exchange.

2. Minimize Foreign Dependence:
Imports are always costly in terms of foreign exchange as well as in terms of trade. Entrepreneurs have to play their role in this context. Entrepreneurs through their innovative behaviour can easily produce goods and services which can be treated as a substitute for imported items. By this process, they can minimize foreign dependence for the supply of goods and services in the country.

3. Production of Import Substitution Items:
The Government of India has completely banned the import of some commodities, whereas import of some other goods and services has been declared as restricted items. In such conditions, entrepreneurs may fulfil the need of earning foreign exchange by producing commodities included in list of import substitution.

4. Innovative Approach:
The entrepreneur is always ready to take the advantages of all favourable opportunities. He carries out production by suitably identifying the opportunities and also starts providing new range of services in the foreign market.

5. Increase in Exports:
Entrepreneurs search viable opportunities in diversified export items. In some cases, Government also provides incentives for the production of exportable items. The combined effect of these measures increases the level of export.

6. Industrial Progress:
Concept of global village has created an environment of competition and cost effectiveness. Entrepreneurs ensure a speedy industrialization and target the large scale production. In this way they can easily compete with foreign producers and get the foreign market under their control.

Sources of Forex Earnings:

The main sources of forex earning in India are as follows:

1. Rapid increase in our exports.
2. Heavy remittance of foreign currency by NRI for investment motive.
3. Entry of foreign entrepreneurs in large number in India with large foreign capital and latest technology.
4. Arrival to foreign capital in India (i.e. foreign direct investment)
5. Profit from industries which are established by Indian entrepreneurs in foreign country.
6. Indian employees who are involved in private and Govt. services in abroad.

Effect of Forex Earnings on Economy

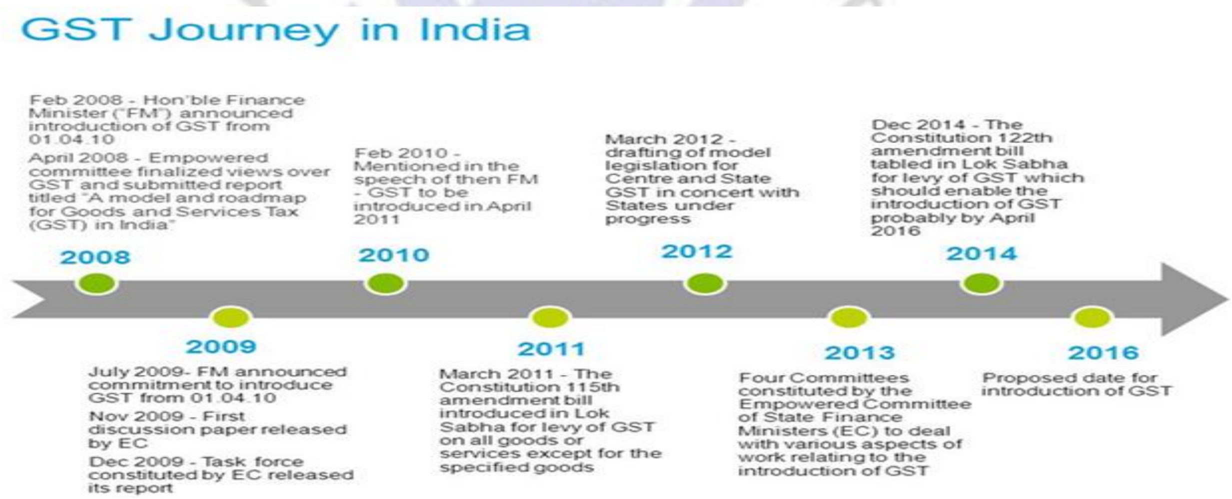
1. Balance of Payment.
2. Reduction import.
3. Increasing export.
4. Introduction to foreign technology.
5. Advance technology based productivity.
6. Rising trend of production and productivity.
7. Low cost of production and control on price level.
8. Industrial Development.
9. Control on Monopolies Restrictive Trade Practices.
10. Increasing competitive Tendency.

GOODS & SERVICE TAX (309)

UNIT 1

- **GST in India: Constitutional provisions of Indirect taxes:**

GST Introduction: Goods and Services Tax (GST) is an indirect tax (or consumption tax) imposed in India on the supply of goods and services. It is a comprehensive multistage, destination based tax: comprehensive because it has subsumed almost all the indirect taxes except few; multi-staged as it is imposed at every step in the production process, but is meant to be refunded to all parties in the various stages of production other than the final consumer and as a destination based tax, as it is collected from point of consumption and not point of origin like previous taxes.



1. The Goods and Services Tax (GST) was first implemented in France.
2. India's GST is **based on the Canadian model.**
3. GST in India was made on the recommendation of Vijay Kelkar Committee.
4. GST in India was **implemented on July 1, 2017**
5. The **first state which implemented the GST was Assam.**
6. Amitabh Bachchan has been made the brand ambassador of GST
7. GST has been implemented under Article 279 of the Indian constitution.
8. GST Council was formed by the President of India in September 2016.
9. Finance Minister is the Chairman of the GST Council.
10. GST Council leads GST decisions.
11. GST has been implemented by the *101st Constitution Amendment Act, 2016.*
12. The GST was the *122nd constitutional amendment bill* to be introduced in the Parliament of India
13. The President of India approved GST bill on 8th September 2016.
14. During passing of GST bill in parliament; 336 votes casted in the favour of GST bill and 11 votes were against it.
15. There is a provision of 5 years imprisonment for those who do not pay GST.
16. There are 5 rates of taxes in GST i.e. 0%, 5%, 12%, 18% and 28%

17. GST is an indirect tax in more broader terms it can be said a federal tax.
18. After the implementation of GST, **sales tax, service tax, customs duty, excise duty, VAT, Octroi tax etc. will not exist.**
19. The biggest reason behind the implementation of the GST is to bring uniformity in the tax system of the country.
20. After the implementation of GST, tradition of 'Tax upon Tax' will be eliminated

- **Constitutional amendments under gst:**
  Constitution (122nd Amendment) Bill, 2014

The Union Government in third week of December, 2014 (19 December, 2014) introduced Constitution (122nd Amendment) Bill, 2014 in Parliament which when passed shall pave the way for introduction of proposed Goods and Service Tax (GST) in India. This is an improvised version of lapsed 115th Amendment Bill of 2011.
Contrary to the general perception amongst many quarters that this Bill itself is a GST Bill, let it be very clearly understood that this is not a GST Bill. In fact, GST Bill is not in sight at all at this point in time. What has been introduced is only the Constitutional Amendment Bill enabling or empowering the union Government to levy a tax to be called GST which it cannot levy under the present Constitution. The Bill on passage would enable the Central Government and the State Governments to levy GST. This tax (GST) shall be levied concurrently by various states as well as Union Government. Once this is passed by two-third majority in the Parliament, atleast 50 per cent of the states will have to pass it. Once this amendment is through, the road will be clear for GST Bill (and then Act), given the political will. Eventually, we will then have the following taxes –

- National level GST [Central GST (CGST) and Inter-state GST (IGST)]
- State Level GST (SGST)

Salient Features of Constitution (One Hundred And Twenty-Second Amendment) Bill, 2014

The Constitution (One Hundred and Twenty-Second Amendment) Bill, 2014 was introduced in the Lok Sabha on December 19, 2014. The following is the gist of amendments proposed by this Bill:

1. The Bill seeks to amend the Constitution to introduce the goods and services tax (GST). Consequently, the GST subsumes various central indirect taxes including the Central Excise Duty, Additional Excise Duties, Service Tax, Additional Customs Duty (CVD) and Special Additional Duty of Customs (SAD), etc. It also subsumes state Value Added Tax (VAT)/Sales Tax, Central Sales Tax, Entertainment Tax, Octroi and Entry Tax, Purchase Tax and Luxury Tax, etc.
2. Concurrent powers for GST: The Bill inserts a new Article 246A in the Constitution to give the central and state governments the concurrent power to make laws on the taxation of goods and services
3. Integrated GST (IGST): However, only the centre may levy and collect GST on supplies in the course of inter-state trade or commerce. The tax collected would be divided between the centre and the states in a manner to be provided by Parliament, by law, on the recommendations of the GST Council.
4. GST Council: The President must constitute a Goods and Services Tax Council within sixty days of this Act coming into force. The GST Council aim to develop a harmonized national market of goods and services.

5. GST council examines issues relating to goods, services tax and make recommendations to the Union, and the States on parameters like rates, exemption list and threshold limits. The Council shall function under the Chairmanship of the Union Finance Minister and will have the Union Minister of State in charge of Revenue or Finance as member, along with the Minister in-charge of Finance or Taxation or any other Minister nominated by each State Government.

6. Composition of the GST Council: The GST Council is to comprise of the following three members / class of members:

1. the Union Finance Minister (as Chairman),
2. the Union Minister of State in charge of Revenue or Finance, and
3. the Minister in charge of Finance or Taxation or any other, nominated by each state government.

7. Functions of the GST Council: These include making recommendations on:

- taxes, cess and surcharges levied by the centre, states and local bodies which may be subsumed in the GST;
- goods and services which may be subjected to or exempted from GST;
- model GST laws, principles of levy, apportionment of IGST and principles that govern the place of supply;
- the threshold limit of turnover below which goods and services may be exempted from GST;
- rates including floor rates with bands of GST;
- special rates to raise additional resources during any natural calamity;
- special provision with respect to Arunachal Pradesh, Jammu and Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura, Himachal Pradesh and Uttarakhand; and
- Any other matters relating to the goods and services tax, as the Council may decide.

8. The Goods and Service Tax Council shall recommend the date from which the goods and service tax be levied on petroleum crude, high speed diesel, motor spirit (commonly known as petrol), natural gas and aviation turbine fuel.

9. Resolution of disputes: The GST Council may decide upon the modalities for the resolution of disputes arising out of its recommendations.

10. Restrictions on imposition of tax: The Constitution imposes certain restrictions on states on the imposition of tax on the sale or purchase of goods. The Bill amends this provision to restrict the imposition of tax on the supply of goods and services and not on its sale.

11. Additional Tax on supply of goods: An additional tax (not to exceed 1%) on the supply of goods in the course of inter-state trade or commerce would be levied and collected by the centre. Such additional tax shall be assigned to the states for two years, or as recommended by the GST Council.

12. The net proceeds of additional tax on supply of goods in any financial year, except the proceeds attributable to the Union territories, shall not form part of the Consolidated Fund of India and be deemed to have been assigned to the States from where the supply originates.

13. Compensation to states: Parliament may by law provide for compensation to states for revenue losses arising out of the implementation of the GST, on the GST Council's recommendations. This would be up to a five-year period.

14. The Government of India may where it considers necessary in the public interest, exempt such goods from the levy of tax.

15. Both Centre and States will simultaneously levy GST across the value chain. Centre would levy and collect Central Goods and Services Tax (CGST), and States would levy and collect the State Goods and Services Tax (SGST) on all transactions within a State.
16. The Centre would levy and collect the Integrated Goods and Services Tax (IGST) on all inter-State supply of goods and services. There will be seamless flow of input tax credit from one State to another. Proceeds of IGST will be apportioned among the States.
17. GST will be a destination-based tax. All SGST on the final product will ordinarily accrue to the consuming State.

What is proposed Constitutional Amendment

A newly inserted article 246A in the Constitution shall provide for special provision with respect to GST. According to the Bill, the following important clauses of the Bill are worth noting:

1. Clause 246A

The Legislature of every State shall have power to make laws with respect to goods and services tax imposed by the Union or by such State. Parliament will have exclusive power to make laws with respect to goods and services tax where the supply of goods, or of services, or both takes place in the course of inter-State trade or commerce.

2. Clause 269A

- Goods and services tax on supplies in the course of inter-State trade or commerce shall be levied and collected by the government of India and such tax shall be apportioned between the Union and the States in the manner as may be provided by Parliament by law on the recommendations of the Goods and Services Tax Council.
- Supply of goods or services, or both in the course of import into the territory of India shall be deemed to be supply of goods or services, or both in the course of inter-state trade or commerce.
- Parliament may, by law, formulate the principles for determining the place of supply, and when a supply of goods or of services, or both takes place in the course of inter-state trade or commerce.

3. Clause 279A

The President shall, within sixty days from the date of commencement of the Constitution (One Hundred and Twenty-second Amendment) Act, 2014, by order, constitute a Council to be called the Goods and Services Tax Council.

4. Clause 279A

The Goods and Services Tax Council shall make recommendations to the Union and the States on-

1. the taxes, cesses and surcharges levied by the Union, the States and the local bodies which may be subsumed in the goods and services tax;

2. the goods and services that may be subjected to, or exempted from the goods and services tax;
3. model Goods and Services Tax Laws, principles of levy, apportionment of integrated Goods and Services Tax and the principles that govern the place of supply;
4. the threshold limit of turnover below which goods and services may be exempted from goods and services tax;
5. the rates including floor rates with bands of goods and services tax;
6. any special rate or rates for a specified period, to raise additional resources during any natural calamity or disaster;
7. special provision with respect to the States of Arunachal Pradesh, Assam, Jammu and Kashmir, Manipur; Meghalaya, Mizoram, Nagaland, Sikkim, Tripura, Himachal Pradesh and Uttarakhand; and

(h) any other matter relating to the goods and services tax, as the Council may decide.

What will the Goods & Service Tax Council do

Apart from aforementioned recommendations, GST Council shall undertake the following-

1. The Goods and Services Tax Council shall recommend the date on which the goods and services tax be levied on petroleum crude, high speed diesel, motor spirit (commonly known as petrol), natural gas and aviation turbine fuel. While discharging the functions conferred by this article, the Goods and Services Tax Council shall be guided by the need for a harmonised structure of goods and services tax and for the development of a harmonised national market for goods and services.
2. The Goods and Services Tax Council shall determine the procedure in the performance of its functions.
3. The Goods and Services Tax Council may decide about the modalities to resolve disputes arising out of its recommendations.

Meaning of Goods / Services / GST

The amendment Bill defines these terms-

- "goods" includes all materials, commodities, and articles; [article 366 (12)]
- "services" means anything other than goods: [article 366 (26A)]
- "goods and services tax" means any tax on supply of goods or services or both except taxes on the supply of the alcoholic liquor for human consumption; [article 366 (12A)]

'Goods' and 'Services' are otherwise defined in other enactments such as Central Excise Act, 1944, Sale of Goods Act, 1930, The Finance Act, 1994 (Service Tax) etc

- **Basic concepts supply, composite supply and Mixed Supplies**What is a supply under GST? The expression "supply" simply means all forms of supply of goods/ services. It is made for a consideration during the course of business and includes the following:
- Sale

- Transfer
- Barter
- Exchange
- License
- Rental
- Lease
- Disposal
- Import of services for a consideration (if even it is not in the course or furtherance of business)

Certain activities specified in Schedule I of GST Act will also be treated as supply.

Why is the concept of mixed supply & composite supply important?

Specific rates for goods and services have been defined by the GST Council. GST Rate for each type of goods and services have been defined in the GST Law. So if you are supplying a particular good or a service rates are easy to identify. However, sometimes supply of a good and service may be connected or may be done together even though not connect. Say for example, an AC is supplied and AC installation services are also supplied along with it. The GST Act defines how such supply must be rated.

Therefore, the concept of composite supply and mixed supply becomes important. It helps to determine the correct GST rate and provides uniform tax treatment under GST for such supplies.

What is a bundled supply?

A bundled supply is a combination of goods and/or services. This concept was mainly found in service tax where a bundled service meant a combination of two or more services.

How to determine if it is naturally bundled, i.e., it cannot be separated?

The question of bundled supply in the ordinary course of business depends on the normal practices followed in the industry. Here are some ways to identify them:

1. If buyers mostly expect such services to be provided as a package, then the package will be treated as naturally bundled.

For example, most business conventions look for combination of hotel accommodation, auditorium and food.

2. If most of the service providers in the industry provide a package of services then it can be considered as naturally bundled. For example, air transport and food on board is a bundle offered by most airlines.

3. The nature of the various services in a bundle of services will also help to identify whether the services are bundled.

If there is a main service and the others are ancillary service then it becomes a bundled service.

For example, five- star hotels often provide free laundry services on staying at the hotel. Renting the room is the primary service and laundry is ancillary. A person can opt for laundry services only if he is staying at the hotel

Other indicators of bundling of services in the ordinary course of business (but they are not a foolproof identification):

– There is a single price for the package even if the customers opt for less

– The components are normally advertised as a package

– The different components are not available separately

What is composite supply under GST?

Composite supply means a supply is comprising two or more goods/services, which are naturally bundled and supplied in with each other in the ordinary course of business, one of which is a principal supply.

It means that the items are generally sold as a combination.

The items cannot be supplied separately.

How to determine if it is a composite supply?

A supply of goods and/or services will be treated as composite supply if it fulfills the following criteria:

- Supply of 2 or more goods or services together **AND**
- It is a natural bundle, i.e., goods or services are **usually provided together in the normal course of business.**
- They cannot be separated.

What tax rate will apply?

The tax rate of the principal supply will apply on the entire supply.

Example:

Goods are packed and transported with insurance. The supply of goods, packing materials, transport and insurance is a composite supply. Insurance, transport cannot be done separately if there are no goods to supply. Thus, the supply of goods is the principal supply.

Tax liability will be the tax on the principal supply i.e., GST rate on the goods.

If the second condition is not fulfilled it becomes a mixed supply.

What is mixed supply under GST?

- Mixed supply under GST means a combination of two or more goods or services made together for a single price.
- Each of these items can be supplied separately and is not dependent on any other.

Under GST, a mixed supply will have the tax rate of the item which has the highest rate of tax.

For example-

A Diwali gift box consisting of canned foods, sweets, chocolates, cakes, dry fruits, aerated drink and fruit juices supplied for a single price is a mixed supply. All are also sold separately. Since aerated drinks have the highest GST rate of 28%, aerated drinks will be treated as principal supply and 28% will apply on the entire gift box.

How to determine if it is a mixed supply or a composite supply?

You have to rule out that the supply is a composite supply. A supply can be a mixed supply only if it is not a composite supply.

If the items can be sold separately, i.e., the supplies not naturally bundled in the ordinary course of business, then it would be a mixed supply.

For example:

If a person buys canned foods, sweets, chocolates, cakes, dry fruits, aerated drink and fruit juices separately and not as a Diwali gift box, then it is not considered a mixed supply. All items will be taxed separately.

Differences between mixed and composite supplies

Particulars	**Composite Supply**	**Mixed supply**
Main item	Principal item	Item with highest tax rate
Tax rate applicable	Tax rate of principal item	Highest tax rate of all the items

Time of supply

Time of supply in case of composite supply

If the principal supply is a service (for example, air transport and food on board) then the composite supply will be treated as a supply of services. The provisions relating to time of supply of services will apply.

Similarly, in the case of purchasing and transporting the goods, the supply of goods is the principal supply. The composite supply will qualify as supply of goods and the provisions relating to time of supply of goods will apply.

Time of supply in case of mixed supplies

If the highest tax rate belongs to a service then the mixed supply will be treated as the supply of services. The provisions relating to time of supply of services would be applicable.

Similarly, if the highest tax rate belongs to goods then the mixed supply will be treated as supply of goods. The provisions relating to time of supply of services would be applicable.

For more details on time of supply of goods and services please refer to our various articles.

Further examples

Example 1

Booking train tickets: You are booking a Rajdhani train ticket which includes meal. It is a bundle of supplies. It is a composite supply where the products cannot be sold separately. You will not buy just the train meal and not the train ticket. The transportation of passenger is, therefore, the principal supply.

Rate of tax applicable to the principal supply will be charged to the whole composite bundle. Therefore, rate of GST applicable to transportation of passengers by rail (5%) will be charged by IRCTC on the booking of Rajdhani ticket.

Example 2: Buy detergent Get bucket free

Many shops offer a free bucket with detergent purchased. This is a mixed supply as it does not satisfy the 2nd condition, i.e., it can be sold separately. You can buy either just a bucket or just detergent. The highest rate of GST will then apply. Since detergents have the higher rate (28%), this rate will apply on the whole mixed bundle.

Example 3: Works Contract
A works contract is a mixture of service and transfer of goods. For example, construction of a new building where a combination of materials like bricks, cement, sand along with services of labourers, engineers, architects etc. produce a building (goods).

It is a classic example of composite supply. But to avoid the confusion under earlier tax law, GST Act clearly clarifies works contract as a supply of service with specific tax rates.

Example 4: Restaurant
Restaurant business provides a bundled supply of preparation of food and serving the same.
It is also a classic example of a composite supply. However, to avoid the confusion under earlier tax law, **GST Act clearly clarifies** restaurants as a supply of service with specific tax rates.

- **Services under GST**

GST stands for Goods and Services Tax. Following are the various types of GST.

- **CGST –Central GST**
- **SGST –State GST**
- **IGST –Integrated GST**

At the time of GST intrhen Finance Minister Arun Jaitley said that the government wanted to keep the GST rates close to the original rates. But there were differences in case of some items because of the changes in the economy as well as customer preferences. Some commodities were kept in the high tax bracket (18-28%) but on scrutinizing the list, they found that these commodities should be considered as necessities and not luxuries. This is why the GST rates were revised for commodities such as notebooks, exercise books,

Find GST Rates & HSN/SAC Codes for Various Goods & Services
GST Tax Rates on some common items

Download GST Rate List PDF :

Tax Rates	**Products**
0.25%	Cut and semi-polished stones are included under this tax slab.
5%	Household necessities such as edible oil, sugar, spices, tea, and coffee (except instant) are included. Coal, Mishti/Mithai (Indian Sweets) and Life-saving drugs are also covered under this GST slab.
12%	This includes computers and processed food
18%	Hair oil, toothpaste and soaps, capital goods and industrial intermediaries are covered in this slab.

28%	Luxury items such as small cars, consumer durables like AC and Refrigerators, premium cars, cigarettes and aerated drinks, High-end motorcycles are included here.

Though edible items like sugar, tea and coffee are included in the 5% slab, milk does not attract any tax under the new GST regime. The idea behind this is to ensure that basic food items are available for everyone but instant food is kept out of this category.

- Basic household items like toothpaste and hair oil, which currently attract 28% tax, will be taxed at 18% only.
- Sweets will also be taxable at 5%.
- Tax rates on coal has also been reduced from 11.69% to just 5% in order to relieve the pressure on power industries.
- GST also gives a major push to domestic industries as they will be able to procure seamless input credit for capital goods. Make in India campaign is set to flourish after this reform.

GST Rates on Goods

The government has proposed a 4-tier tax structure for all goods and services under the slabs- 5%, 12%, 18% and 28%. After the recent revision of GST rates, these are the commodities that fall under the four tax slabs along with those that do not attract any tax. Please note that only those commodities are included in this list whose rates have been revised in various council meetings.

UPDATE: As per 37th GST Council Meeting, cut and semi-polished stones will be taxed at 0.25% GST. This is a 5th GST tier that only includes a few products.

No Tax

Apart from other items that enjoy zero GST tax rate, these are the commodities added to the list after 11th June rate revision –

Hulled cereal grains like barley, wheat, oat, rye, etc.	Bones and horn-cores unworked and waste of these products.	Palmyra jaggery	All types of salt
Kajal [other than kajal pencil sticks]	Picture books, colouring books or drawing books for children	Human hair – dressed, thinned, bleached or otherwise worked	Sanitary Napkins
Vegetables preserved using various techniques including brine and other preservatives that are unsuitable for immediate human consumption.	Music Books/manuscripts	Dicalcium Phosphate (DCP) of animal feed grade conforming to IS specification No. 5470 :2002	Unit container-packed frozen branded vegetables (uncooked/steamed)

5% Tax Slab

Given below are the items that have been added to the 5% GST tax rate slab along with the other existing items-

Cashew nuts/cashew nuts in shell	Ice and snow	Bio gas	Insulin	Marble rubble
Aggarbatti and Kites	Accessories/parts for carriages designed for differently-abled individuals	Coir mats, matting and floor covering	Pawan Chakki that is Wind-based Atta Chakki	Natural cork
Postage or revenue stamps, stamp-postmarks, first-day covers, etc.	Numismatic coins	Braille paper, braille typewriters, braille watches, hearing aids and other appliances to compensate for a defect or disability	Fly-ash blocks	Walking sticks

12% Tax Slab

After the GST council meeting on 11th June, the following items were added to the 12% GST rates category-

Preparations of vegetables, fruits, nuts or other parts of plants, including pickle, murabba, chutney, jam, jelly	Ketchups, sauces and mustard sauce but excluding curry paste, mayonnaise and salad dressings, mixed condiments and mixed dressings	Bari made of pulses including mungodi	Menthol and menthol crystals, peppermint, fractionated/de-terpenated mentha oil, dementholised oil, Mentha piperita oil and spearmint oil	All diagnostic kits and reagents
Plastic beads	Exercise books and note books	Glasses for corrective spectacles and flint buttons	Spoons, forks, ladles, skimmers, cake servers, fish knives, tongs	Fixed Speed Diesel Engines
Two-way radio (Walkie talkie) used by defence, police and paramilitary forces etc.	Intraocular lens	Corrective spectacles	Playing cards, chess board, carom board and other board games, like ludo, etc.	Debagged/roughly squared cork
Items manufactured from natural cork	Agglomerated cork			

18% Tax Slab

The items mentioned below have been added to the 18% GST tax rate slab among the other existing items-

Kajal pencil sticks	Dental wax	Plastic Tarpaulin	School satchels and bags other than of leather or composition leather; toilet cases, Hand bags and shopping bags of artificial plastic material, cotton or jute; Handbags of other materials excluding wicker work or basket work	Headgear and parts thereof
Precast Concrete Pipes	Salt Glazed Stone Ware Pipes	Aluminium foil	All goods, including hooks and eyes	Rear Tractor tyres and rear tractor tyre tubes
Rear Tractor wheel rim, tractor centre housing, tractor housing transmission, tractor support front axle	Weighing Machinery other than electric or electronic weighing machinery	Printers other than multifunction printers	Ball bearing, Roller Bearings, Parts & related accessories	Transformers Industrial Electronics
Electrical Transformer	Static Converters (UPS)	CCTV including CCTV with video recorders	Set top Box for TV	Computer monitors not exceeding 17 inches
Electrical Filaments or discharge lamps	Winding Wires, Coaxial cables and Optical Fiber	Perforating or stapling machines (staplers), pencil sharpening machines	Baby carriages	Instruments for measuring length, for use in the hand (for example, measuring rods and tapes, micrometers, callipers)
Bamboo furniture	Swimming pools and paddling	Televisions/Monitors (upto 32 inches)	Power banks powered by Lithium-ion batteries	Sports goods, games consoles and related items

	pools			with HS code 9504
All items with HS code 8483 including gear boxes, transmission cranks and pulleys	Used or retreaded pneumatic rubber tires			

28% Tax Slab

The council meeting was held to 'reduce' the tax rates on certain items based on customer preferences. Hence, no additional items were added to the highest GST rates slab of 28%.

*The GST rates for various products are subject to change from time to time without prior information.

GST Rates on Services

Government has also imposed GST on Services with the same 4-tier tax structure as of goods. GST rates on services comprising of 5%, 12%, 18% and 28% comes with various pros and cons for the consumers. However, government has exempted healthcare and educational services from the purview of the GST.

The Goods and Services Tax council has passed the rate slabs at NIL, 5%, 12%, 18%, 28%. Some of the services categorized under different slabs are mentioned below :

Nil GST

- Chargeable services offered on Basic Savings Bank Deposit (BSBD) account opened under the PMJDY (Pradhan Mantri Jan Dhan Yojana)
- Hotel accommodation for transaction value per unit per day being Rs. 1000 or less

5% Tax Slab

Working for printing of newspapers	Goods transported in a vessel from outside India	Renting a motor cab without fuel cost	Transport services in AC contract/stage or radio taxi	Transport by air (scheduled)/air travel for purpose of pilgrimage via chartered/non-scheduled flights
Tour operator services	Leasing of aircrafts	Print media ad space		

12% Tax Slab

Rail transportation of goods in containers from a third party other	Air travel excluding economy	Food /drinks at restaurants without AC/heating or	Renting of accommodation for more than Rs.1000 and less than Rs.2500	Railway wagons, coaches, rolling stock (without refund of accumulated Input Tax

than Indian Railways		liquor license	per day	Credit/ITC)
Construction of building for the purpose of sale	IP rights on a temporary basis	Movie Tickets less than or equal to Rs. 100	Chit fund services by foremen	Hotel accommodation for transaction value per unit per day ranging between Rs. 1001 to 7500

18% Tax Slab

Food/drinks at restaurants with liquor license	Food /drinks at restaurants with AC/heating	Outdoor catering	Renting for accommodation for more than Rs.2500 but less than Rs.5000 per day	Hotel accommodation for transaction value per unit per day being Rs. 7501 or more
Circus, Indian classical, folk, theatre, drama	Supply of works contract	Movie Tickets over Rs. 100	Supply of food, shamiyana, and party arrangement	

28% Tax Slab

Entertainment events-amusement facility, water parks, theme parks, joy rides, merry-go-round, race course, go-carting, casinos, ballet, sporting events like IPL	Race club services	Gambling
Food/drinks at AC 5-star hotels		

GST on Loans and Advances

Earlier Service Tax was levied on Loans which has now been replaced by GST which would now be levied on loans. The rate of Service Tax was 15% whereas the rate of GST is 18%. A lot of people are of the opinion that the effective cost of having a loan would increase as the rate of GST is 3% higher than the rate of Service Tax. Several people are of the opinion that their EMI's would increase as the rate has been increased by 3%. However, this is not the case as GST is not levied on repayment of loan or on payment of Interest on Loan.

GST is only levied on the processing charges and any other charges paid to the bank excluding the principal repayment and interest payment. These other charges include the Loan Processing Fees, Loan Prepayment Charges and other charges, if any. As a major chunk of the loan repayment comprises of principal repayment and interest payment, the impact of GST on Loans would be very negligible. The impact of GST on Home Loans and Personal Loans has been explained below for a much better understanding of the impact.

Mentioned below are the important loans and their GST rates:

(a) Personal Loan- **18%**

(b) Home Loans- **18%**

(c) Car Loan– **18%**
GST on Cars

Subsequent to bringing cars under the GST regime, the GST rate on cars has been fixed at 28% for all personal use vehicles featuring a petrol or diesel driven engine. However, in addition to GST, a composition cess is also applicable to cars over and above the GST Rate. Thus the overall tax rate applicable to vehicles under GST ranges from 29% to 50%. Lower rates of taxation are however applicable to cars driven by cleaner technologies such as fuel cells (including hydrogen fuel cell) and electric vehicles.

GST on Gold

Subsequent to introduction of GST on items made from gold such as gold jewelry, the current GST rate on gold is 3%. However, a 5% GST rate is applicable to making charges applied to gold jewelry in case the manufacturing is outsourced to a job worker. This can however, be charged as input tax credit (ITC) by the jeweler and only a 3% GST charge is applied to the final bill paid by the purchaser of gold jewelry items.

GST On Real Estate

GST is applicable to real estate purchases only if you are purchasing an under construction property. The GST rate applicable to such commercial or residential transactions is 12% till 31st March 2019. From 1st April, the applicable GST Rates on residential real estate will be 5% for non-affordable housing properties and 1% for affordable housing properties. No GST is applicable in case you are purchasing a ready to move in property. Additionally, different GST rates are applicable to various building materials used in the construction of houses/flats. This can range from 5% (sand, marble rubble, etc.) to 28% (cement, etc.).

GST on Food

Food items especially fresh food mostly carry a Nil GST rate. However, packaged food stuff and semi-processed/processed foods do feature GST rates starting from 5% up to 18%. While no food stuff are currently included in the highest 28% GST bracket, the 18% rate of GST is applicable to some common food products such as chocolates as well as baked goods such as cakes.

Upcoming products in GST Rates Slab

The Government is going on with some new tactics to bring in some of the products under GST system. As hinted by Finance Minister, Arun Jaitley, there could be an inclusion of products under GST with the reduction of GST rates on some products. Major products which can come under GST rates slab includes :

1. Petroleum products- Petrol and Diesel
2. Land
3. Electricity
4. Others

Total Revisions in GST Rates

Till date, there has been 37 GST council meetings till October 2019 in which the council has recommended various relief measures regarding GST rates on goods and services. GST Council Meeting is chaired by the Finance Minister providing clarification and recommendation regarding various changes made in the GST rates of the goods and services.

GST Council Meetings

Some of the important GST council meetings held till date are mentioned below:

37th GST Council Meeting: The 37th GST Council Meeting held on 20th September, 2019 led to various changes in GST laws for MSMEs, rates of certain goods and services. The main decisions include waiver of GSTR-9A filing for FY 2017-18 and 2018-19. It also announced the introduction of **New GST Return System** from April, 2020.

36th GST Council Meeting: The 36th GST Council Meeting held on 27th July, 2019 was primarily aimed to reduce GST rate on electric vehicles (12% to 5%). The GST rates on electric vehicle chargers and charging stations were also reduced to 5% from 12%. Moreover, the deadline for submission of forms CMP-08 and CMP-02 were extended.

35th GST Council Meeting: The 35th GST Council Meeting was held on 21st June, 2019 was the first to be conducted after the 2019 General Elections. The Council extended the due date to file annual GST returns. Additionally, the GST Council clarified that Aadhaar OTP can be used for GST registration.

34th GST Council Meeting: The 34th GST Council Meeting held on 19th March, 2019 mainly focused on providing clarifications regarding the new real estate rates of 1% (for affordable housing) and 5% (for non-affordable housing) applicable from 1st April 2019 onwards.

33rd GST Council Meeting: The 33rd GST Council Meeting held on 24th February, 2019 introduced much anticipated rate cuts for the residential real estate sector with effect from 1st April, 2019. The announcement also provided clarity regarding the definition of affordable housing.

32nd GST Council Meeting: The 32nd GST Council Meeting held on 10th January 2019 did not feature any announcements in terms of GST rate rationalization however the decisions did feature a focus on smaller businesses. One of the key decisions at this GST Council meeting was the introduction of a GST composition scheme for individuals/businesses providing services or mixed services (other than restaurant services) with a turnover limit of Rs. 50 lakhs with a tax rate of 6%. Additionally, the exemption for other schemes registered under composition scheme was also increased to Rs. 1.5 crore from the current level of Rs. 1 crore (for plains states).

31st GST Council Meeting: The 31st GST Council Meeting held on 22nd December 2018 featured a number of rate changes in terms of goods and services. However no goods or services witnessed an increase in rates and the decrease in rates included tax rate change from 5% to nil (packaged vegetables, etc.) as well as 12% to nil (music books). Some key construction materials also witnessed a reduction in rates such as marble rubble (18% to 5%) and fly-ash bricks (12% to 5%).

30th GST Council Meeting: The 30th GST Council Meeting was held on 28th September 2018 and one of its key highlights was an observed decrease in the revenue gap under the GST regime as compared to the earlier VAT regime. One of the key reasons for this increase was attributed to higher revenue collections from various northeastern states. The council also discussed the imposition of a calamity cess to help distressed states that have been affected by natural calamities such as floods. No GST rates of any products or services were changed at this meeting.

29th GST Council Meeting: The 29th GST Council Meeting concluded on the 4th of August 2018. This time around no rate cuts were announced due to data suggesting low GST revenue collections. However, the GST Council did propose the development of a mechanism to provide cashback of 20% on various digital transactions up to maximum Rs. 100 in order to promote cashless transactions. The decision was also taken to form a panel to examine various tax and compliance relief proposals with respect to small taxpayers and MSMEs.

28th GST Council Meeting: The 28th GST meeting held at New Delhi on 21st July, 2018 witnessed major changes in the GST rates in the country. The government has focused on changes made in GST rates on various goods and services and also has simplified the GST return filing mechanism.

Some of the major changes initiated in the meeting includes-

1. GST Returns of Small taxpayers
2. Simplified monthly returns

3. NIL Return filing by SMS
4. GST Migration Re-opened
5. Changes in GST rates.

The council has brought down the tax rates to 18% from 28% on 15 items including vaccum cleaners, washing machine, TV, paints and others. Sanitary napkins, Stone/marble, raw materials for jhadoo and others have got their rates reduced to 0% i.e. exempted from GST. Now only 35 goods are in 28% bracket. This rates will be implemented from 27th July.

27th GST Council Meeting: The Finance Minister Arun Jaitley chaired the 27th GST Council Meeting on Thursday, 18th Jan, 2018 where certain changes and recommendations were made through a video conference in New Delhi. In this meeting, various provisions were made for B2B dealers, GSTR 3B and GSTR 1 filing to be continued same. Furthermore, council also decided to look into the matter of cess in sugar as well as digital transactions.

26th GST Council Meeting: This GST meeting was held at Vigyan Bhawan, New Delhi on 10th Mar, 2018. GST council primarily focused on exports, interstates movement of goods, filing returns and others. The main agenda of the meeting was E-Way Bill, Simple Return Filings, GSTR 3B deadline extension, Composition Scheme.

25th GST Council Meeting: On 18th Jan, 2018 GST council meeting was held at Vigyan Bhawan, New Delhi. It focused on building some anti-evasion measures on GST. Some items were re-considered under 18% slab rate from 28% slab rate.

24th GST Council Meeting: The twenty-fourth meeting of GST Council was held on 16th Dec, 2017 through video conference. Agenda of the discussion was introduction of e-Way Bill System by the given deadline, refund of provisionally accepted input tax credit.

23rd GST Council Meeting: 10th Nov, 2017 witnessed the 23rd GST council meeting in Guwahati, Assam. This meeting focused on analysis of revenue, modification on rules of Anti- Profiteering and GST Rates on certain items coming under 28% slab rates.

22nd GST Council Meeting: The 22nd council meeting decided that AC restaurant tax rate revised to 12% from 18%. Major changes in the GST rates, businesses with turnover up to INR 1.5 crore allowed to file quarterly returns, No GST on advances received by SMEs were the key aspects discussed at GST council meet.

21st GST Council Meeting: The 21st meeting was inaugrated in Hyderabad on 9th Sep, 2017. Council decided major changes in the tax rates from 18% to 12%. Also, due dates of filing GSTR-1, GSTR-2, GSTR-3 were extended.

1st and 2nd GST Council Meeting: The first meeting of GST council was held on 22-23 Sep, 2016. It focused on rolling out GST on 1st Arril, 2017. It decided the regulation under composition scheme and GST rates and threshold limit to pay taxes. The second meeting was held on 30th Sep, 2016. GST drafted rules for registration, payment process, returns, invoices and other issues for the taxpayers.

GST Rates Impact on Economy

As GST has transformed the economy at its peak. It's a game-changing reform for the Indian economy as it brings about net appropriate price for the goods and services considered under single taxation system. Mentioned below are some of the important GST rates impacts in the Indian economy :

1. Increase in Competition: After the GST has been imposed, there has been seen a fall in prices of goods and services which ultimately has brought the final consumer to have less tax burden on the goods and services. There is seen a great scope of increased production, thus, increase in competition.
2. Simple Tax Structure: GST has simplified the calculation of tax with the adoption of single taxation system. Under this, multiple taxation has been aborted which ultimately saves time and money.
3. Uniform Tax Regime: Previously, there used to be multiple tax at every stage of supply chain, where the taxpayer got confused. But now, with GST, it is easier for the taxpayer to pay uniform tax.
4. Increase in Exports: There has been seen a fall in the cost of production after the GST got imposed. This in return has brought competitiveness towards the international market resulting in rise in exports.

Protest against GST rates

With the implementation of GST, various traders, cloth merchants, private security agencies and many others went on protest against GST rates. Cloth merchants protested against the imposition of 5% sales tax on textiles under the GST regime. The newly added tax system in the country also made the iron, wire dying and steel traders to held a protest against high rates of GST. Steel traders were of opinion that the new tax system has nosedived 40% trade due to high rates and elaborated paper works under the new system.

Owners and employees of private security agencies also went on a silent protest against the levy of 18% GST on security services because the GST rate took away the major share of wage and benefits from the security personnel.

- **Procedure for Registration**

- The structure of GST stands on the foundation of the registration system, for it is a registered person who is liable to pay tax and who is eligible to avail the benefits of the input tax credit mechanism. A registered person can also collect GST from his recipients. An unregistered person is not taxed and is also kept outside the

- The GST law gives a limited option to certain categories of persons to avoid registration and thus avoid the tax liability lawfully. However, if one falls within the reach of an extensive list of statutorily prescribed criteria requiring compulsory registration, the supplier must get registered.
- **a) State or UTs:**

  Every supplier of the goods or services or both needs to register in a State or a Union Territory, if his turnover exceeds Rs.20 lakhs.

- **b) Special Category States:**
  In case of special category states namely AP, J&K, Assam, Nagaland, Mizoram, Sikkim, Uttarakhand, etc., the person shall be liable to be registered if his turnover exceeds Rs.10 lakhs.
- **c) Aggregate Turnover:**

- Means aggregate value of all taxable supplies, exempt supplies, Exports, and inter-State supplies of persons having the same PAN but excludes taxes.
- **d) Registration:**

- Any person who is registered before the appointed day i.e. 1st July 2017 is liable to be registered under the CGST Act.
- **e) Registration of Transferee or Successor:**

- If a registered business by a taxable person is transferred to another person, then such a person, be it successor or a transferee, shall be liable to be registered under the Act.
- **f) Registration in case of amalgamation or demerger:**

- A transfer due to sanction of a scheme or an arrangement for amalgamation or a demerger takes place of two or more companies in accordance with the order of the High Court or Tribunal, the transferee shall be liable to be registered.
- **Persons Not Liable to be Registered – Section 23 of the CGST Act:**
- Following persons are not liable for registration:
- **a) Exempted Goods or Services:**
- Any person who is engaged exclusively in supply of those goods or services which are wholly exempted from tax or are not liable to pay tax under CGST or under IGST Act.
- **b) An Agriculturist:**
- For those supply only which is produced out of cultivation of land.
- **c) Notified Person:**
- Furthermore, the government on the recommendation of the GST council may issue notification & specify special category of persons who are not liable for registration.

- **a) Details to be furnished:**
- Before applying for registration process, person has to declare the following:
- • PAN
- • Mobile number
- • E-mail address
- • State or UT
- In **Part A of FORM GST REG-01** on the Common Portal, either directly or through a Facilitation Centre notified by Commissioner.
- **b) Reference Number:**
- On successful verification of the PAN, mobile number and e-mail, a temporary reference number shall be generated and communicated to the applicant.
- **c) Application:**
- Using the reference number, the applicant shall electronically submit an application in **Part B of FORM GST REG-01**, duly signed or verified through electronic verification code (EVC), along with documents specified in the form.
- **d) Specified Documents:**
- The following specified documents are required to be submitted along with the application:
- **A. Documents required for Private Limited Company, Public Company (limited company) / One Person Company (OPC):**
-
- **i) Company documents**
-
- • PAN card of the company
- • Registration Certificate of the company
- • Memorandum of Association (MOA)/ Articles of Association (AOA)
- • Copy of Bank Statement
- • Declaration to comply with the provisions
- • Copy of Board resolution
-
- **ii) Director related documents**
-
- • PAN and ID proof of directors
-
- **iii) Registered Office documents**
-
- • Copy of electricity bill/ landline bill, water bill
- • No objection certificate of the owner
- • Rent agreement (in case premises are rented)
-
- **B. Documents required for Limited Liability Partnerships (LLPs):**

- **i) LLP Documents**
- • PAN card of the LLP
- • Registration Certificate of the LLP
- • LLP Partnership agreement
- • Copy of Bank Statement of the LLP
- • Declaration to comply with the provisions
- • Copy of Board resolution

- **ii) Designated Partner related documents**

- • PAN and ID proof of designated partners

- **iii) Registered Office documents**

- • Copy of electricity bill, landline bill, water bill
- • No objection certificate of the owner
- • Rent agreement (in case premises are rented)
-
- **C. Documents required for Normal Partnerships**
-
- **i) Partnership documents**
-
- • PAN card of the Partnership
- • Partnership Deed
- • Copy of Bank Statement
- • Declaration to comply with the provisions
-
- **ii) Partner related documents**
-
- • PAN and ID proof of designated partners
-
- **iii) Registered Office documents**
-
- • Copy of electricity bill / landline bill, water bill
- • No objection certificate of the owner
- • Rent agreement (in case premises are rented)
- • Documents required for Sole proprietorship / Individual

- **iv) Individual documents**

- • PAN card and ID proof of the individual
- • Copy of Cancelled cheque or bank statement
- • Declaration to comply with the provisions

- **v) Registered Office documents**

- • Copy of electricity bill/ landline bill, water bill
- • No objection certificate of the owner
- • Rent agreement (in case premises are rented)
-
- **D. Acknowledgement:**

- On the receipt of an application, an acknowledgement shall be issued to the applicant in FORM
- GST REG-02.

- **Person and Taxable Person**

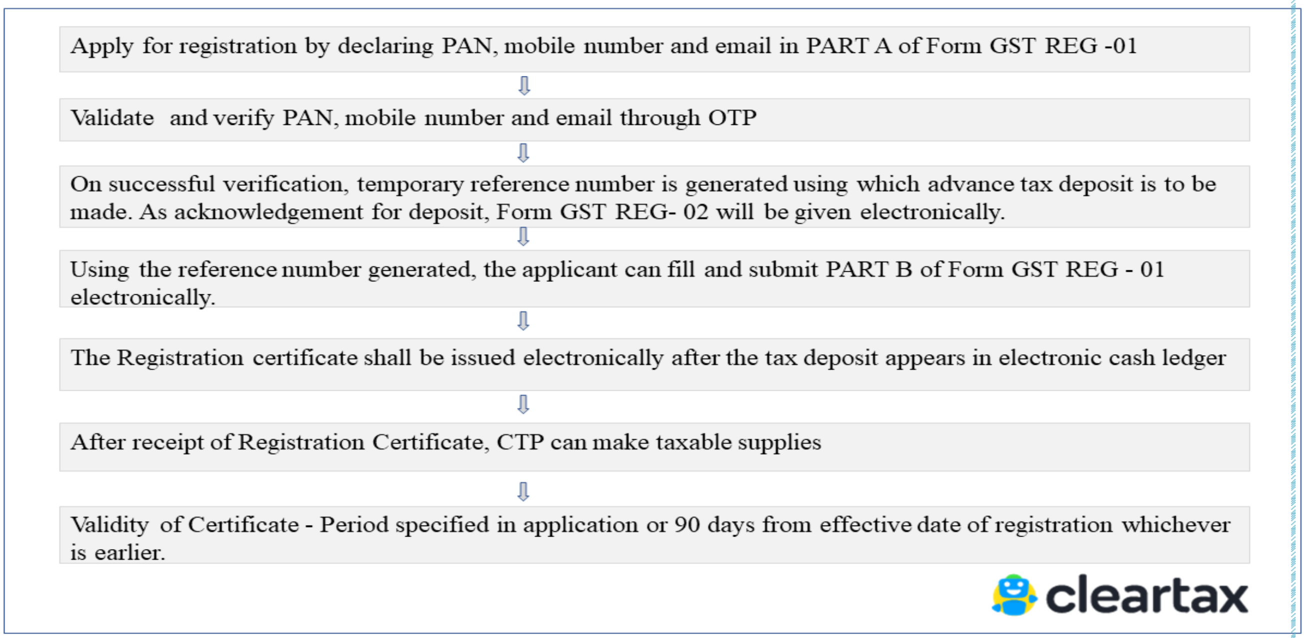
1. INTRODUCTION
Casual taxable person means a person who supplies taxable goods or services occasionally in a taxable Territory where he does not have a fixed place of business. The person can act as a Principal or agent or in any other capacity supply goods or services for the furtherance of business

Example:
Mr.Ravi having the place of business in Bangalore providing Management consultancy services in Hyderabad where he has no place of business. Hence Mr.Ravi has to register as a Casual Taxable Person in Hyderabad before providing such services.
Note-
a. Person includes individuals, Hindu Undivided Family, company including government company, firm, limited liability partnership, an association of persons, a body of individuals, co-operative society, local authority, government including a corporation.
b. Principal place of business means the place of business specified as the principal place of business in the certificate of registration

2. REGISTRATION
The liability to register under GST arises when the person is a supplier and the aggregate turnover in the financial year is above the threshold limit of 20 lac rupees. However, there are certain categories of suppliers who are required to get compulsory registration irrespective of their turnover. The threshold limit of 20 lac rupees is not applicable to them. One such supplier would be a Casual Taxable Person (hereafter referred as CTP). A Casual Taxable person cannot opt for Composition Scheme.

A CTP has to obtain a Temporary Registration which is valid for a maximum period of 90 days in the State from where he seeks to supply as a Casual taxable person. A CTP is required to make the advance deposit of GST (based on an estimation of tax liability).
Let's take our previous example,
Say Mr.Ravi estimates his taxable services at Rs. 100000. He is required to make an advance deposit of Rs.18000 (18% of Rs.100000) to obtain temporary registration.

3. REGISTRATION PROCESS



4. EXTENSION OF PERIOD OF REGISTRATION
Apply in FORM GST REG-11 before the end of validity of registration. An extension can be made for a further period not extending 90 days. The extension will be allowed only on deposit of additional tax liability for the extended period.

5. RETURNS TO BE FURNISHED
The casual taxable person is required to furnish the following returns

FORM	DUE DATE
FORM GSTR-1 (Details of outward supplies of goods or services)	On or before the 10th of the following month
FORM GSTR-2 (Details of inward supplies)	After 10th but before the 15th of the following month
FORM GSTR-3	After 15th but before the 20th of the following month

A casual tax person is not required to file an annual return as required by a normally registered taxpayer.

Note –

All Forms can be submitted at the common portal, either directly or through a Facilitation Centre notified by the Commissioner.

6. REFUND BY CASUAL TAXABLE PERSON

CTP is eligible for the refund of any amount deposited in excess of tax liability which will be refunded after all the necessary returns have been furnished for the Registration period.

Application for Refund of balance in excess of tax liability in the electronic cash ledger has to be made in serial no. 14 of the last FORM GSTR-3 return.

- **Payment of Tax**

A. Payments –

1. What are payments to be made under GST?

Under GST the tax to be paid is mainly divided into 3 –

- IGST – To be paid when interstate supply is made (paid to center)
- CGST – To be paid when making supply within the state (paid to center)
- SGST – To be paid when making supply within the state (paid to state)

CIRCUMSTANCES	**CGST**	**SGST**	**IGST**
Goods sold from Delhi to Bombay	NO	NO	YES
Goods sold within Bombay	YES	YES	NO
Goods sold from Bombay to Pune	YES	YES	NO

Apart from the above payments a dealer is required to make these payments –

- Tax Deducted at Source (TDS) – TDS is a mechanism by which tax is deducted by the dealer before making the payment to the supplier

For example –

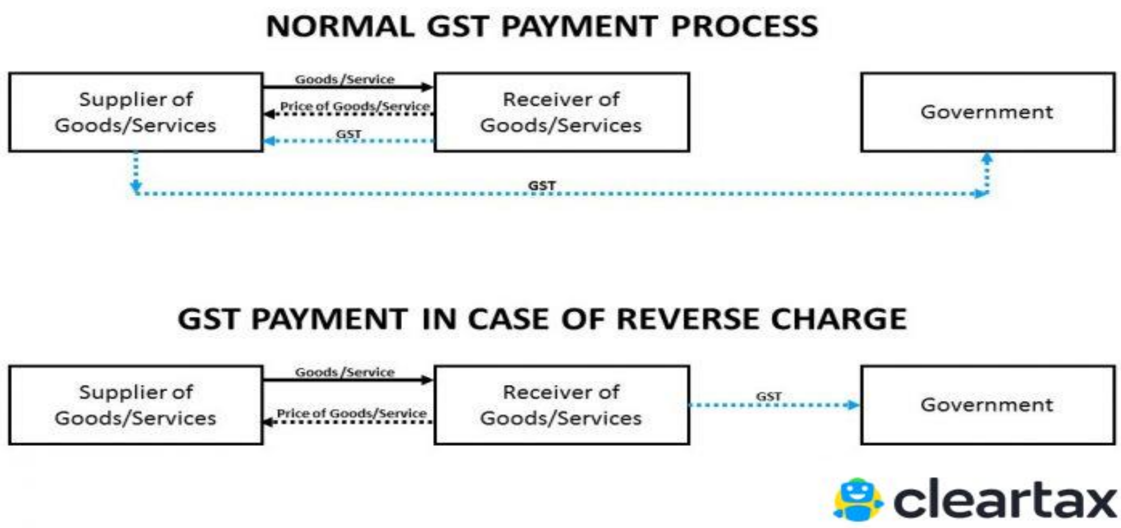
A government agency gives a road laying contract to a builder. The contract value is Rs 10 lakh.

When the government agency makes payment to the builder TDS @ 1% (which amounts to Rs 10,000) will be deducted and balance amount will be paid.

- Tax Collected at Source (TCS) – TCS is mainly for e-commerce aggregators. It means that any dealer selling through e-commerce will receive payment after deduction of TCS @ 2%.

This provision is currently relaxed and will not be applicable to notified by the government.

- Reverse Charge – The liability of payment of tax shifts from the supplier of goods and services to the receiver. To know more about reverse charge check out our article 'Know all about Reverse Charge under GST'



- Interest, Penalty, Fees and other payments

2. How to calculate the GST payment to be made?

Usually, the Input Tax Credit should be reduced from Outward Tax Liability to calculate the total GST payment to be made.

TDS/TCS will be reduced from the total GST to arrive at the net payable figure. Interest & late fees (if any) will be added to arrive at the final amount.

Also, ITC cannot be claimed on interest and late fees. Both Interest and late fees are required to be paid in cash.

The way the calculation is to be done is different for different types of dealers –

Regular Dealer

A regular dealer is liable to pay GST on the outward supplies made and can also claim Input Tax Credit (ITC) on the purchases made by him.

The GST payable by a regular dealer is the difference between the outward tax liability and the ITC.

Composition Dealer

The GST payment for a composition dealer is comparatively simpler. A dealer who has opted for composition scheme has to pay a fixed percentage of GST on the total outward supplies made.

GST is to be paid based on the type of business of a composition dealer.

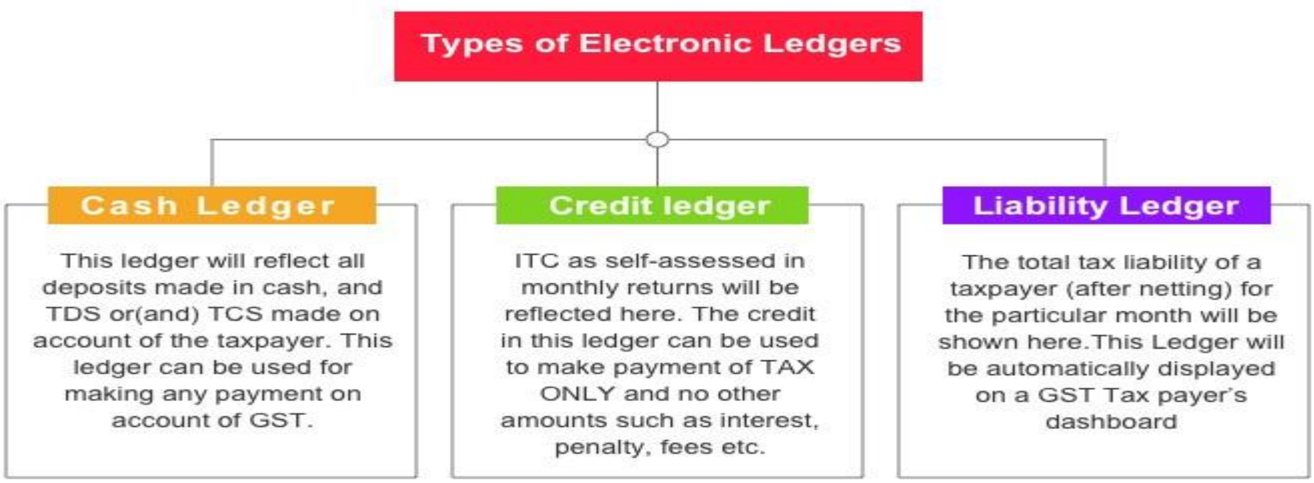
Composition Scheme – Applicable GST Rate			
Type of Business	CGST	SGST	Total
Manufacturer and Traders (Goods)	0.5%	0.5%	1.0%
Restaurants not serving alcohol	2.5%	2.5%	5%
Service Providers are not eligible for Composition Scheme			

3. Who should make the payment?
These dealers are required to make GST payment –

1. A Registered dealer is required to make GST payment if GST liability exists.
2. Registered dealer required to pay tax under Reverse Charge Mechanism (RCM).
3. E-commerce operator is required to collect and pay TCS
4. Dealers required deducting TDS

4. When should GST payment be made?
GST payment is to be made when the GSTR 3 is filed i.e by 20th of the next month.

5. What are the electronic ledgers?
These ledgers are maintained on the electronically on GST Portal.



6. How to make GST payment?
GST payment can be made in 2 ways –

- **Payment through Credit Ledger –**
The credit of ITC can be taken by dealers for GST payment. The credit can be taken only for payment of Tax. Interest, penalty and late fees cannot be paid by utilizing ITC.
- **Payment through Cash Ledger –**
GST payment can be made online or offline. The challan has to be generated on GST Portal for both online and offline GST payment.
Where tax liability is more than Rs 10,000, it is mandatory to pay taxes Online.

7. What is the penalty for non-payment or delayed payment?

If GST is short paid, unpaid or paid late interest at a rate of 18% is required to be paid by the dealer.

Also, a penalty to be paid. The penalty is higher of Rs. 10,000 or 10% of the tax short paid or unpaid

UNIT 2

- **Assessment of Tax**

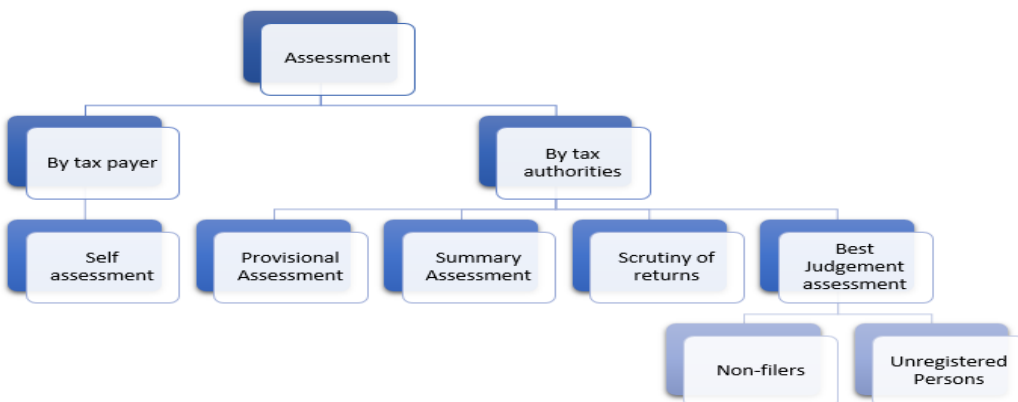
What does Assessment under GST mean?

Assessment means determination of tax liability under GST law. Below are the various types of assessment under GST.

Types of Assessment under GST

- Self-assessment
- Provisional assessment
- Scrutiny assessment
- Best judgment assessment
- Assessment of non-filers of returns
- Assessment of unregistered persons
- Summary assessment

Only self-assessment is done by the taxpayer himself. All the other assessments are by tax authorities.



Self-Assessment

Every registered taxable person shall himself assess the taxes payable and furnish a return for each tax period. This means GST continues to promote self-assessment just like the Excise, VAT and Service Tax under current tax regime.

Provisional Assessment

An assessee can request the officer for provisional assessment if he is unable to determine value or rate.

Unable to determine **value** due to difficulty in –

- Calculating the transaction value
- Understanding whether certain receipts should be included or not

Unable to determine **rate of tax** due to difficulty in –

- Classifying the goods/services

- Identifying whether any notification is applicable or not

Provisions of Provisional Assessment

- **Requests for provisional assessments will be given in writing**
- The proper officer can allow paying tax on provisional basis at a rate or on a value specified by him.
- Order will be passed within 90 days from date of request.
- The taxable person has to issue a bond with a security promising to pay the difference between provisionally assessed tax and final assessed tax.
- **Provisional assessments will be followed by final assessments.** The proper officer can ask for information before final assessment.

Time Limit for Final Assessments

The final assessment will be done within 6 months of the provisional assessment. This can be extended for 6 months by the Joint/Additional Commissioner. However, the Commissioner can extend it for further 4 years as he seems fit.

Interest on Additional Tax Payable and Refunds

The tax payer will have to pay interest on any tax payable under provisional assessment which was not paid within the due date. Interest period will be calculated from the day when tax was first due on the goods/services (and not the date of provisional assessment) till the actual payment date, irrespective of payment being before or after final assessment. Rate of interest will be maximum 18%.

If the tax as per final assessment is less than provisional assessment then the taxable person will get a refund. He will also get interest on refund.

Rate of interest will be maximum 6%.

Scrutiny of Returns

The proper officer can scrutinize the return to verify its correctness. It is a non-compulsory pre-adjudication process. In simple words, it is not mandatory for the officer to scrutinize return. Scrutiny of returns is not a legal or judicial proceeding,i.e., no order can be passed. The officer will ask for explanations on discrepancies noticed.

When Explanation is Satisfactory

If the officer finds the explanation satisfactory then the taxable person will be informed and no further action will be taken.

When Explanation is not Satisfactory

The proper officer will take action-

- If the taxable person does not give a satisfactory explanation within 30 days Or
- He does not rectify the discrepancies within a reasonable time (not yet prescribed)

The officer may-

- Conduct audit of the tax payer u/s 65
- Start Special Audit procedure u/s 66
- Inspect and search the places of business of the tax payer
- Start Demand and Recovery provisions

Similar provisions regarding scrutiny are existing in current excise, VAT and service tax laws.

Thus, most of the assessment provisions under GST are similar to the current indirect tax system.

- **Tax Invoice, Debit note and Credit notes**

1. Introduction

Invoice is a document which provides evidence as to existence of transaction of sale or purchase of goods or the agreement of supply. GST act also gives immense importance to invoice and named it as tax invoice containing details provisions as stated hereunder.

2. Meaning of tax invoice

Tax Invoice shall be deemed to include a document issued by an Input Service Distributor and also include any supplementary or revised invoice issued by the supplier in respect of a supply made earlier.

3. Issue of tax invoice

Supply of goods

Every registered person is required to issue a tax invoice at the time of supply of taxable goods and the invoice shall contain following particulars:-

- Description of goods;
- Quantity of goods;
- Value of goods;
- Tax charged on Value of goods; and
- Such other particulars as may be prescribed.

Supply of services

Every registered taxable person is required to issue a tax invoice at the time of supply of taxable service and the said invoice shall contain all the following essential details as –

- Description of Services;
- Value of Services;
- Tax charged on Value of Services; and
- Such other particulars as may be prescribed.

4. Revised Invoice

If a Registered Taxable Person issued any invoice before issue of registration certificate then such registered person may issue a revised notice for the period starting from the effective date of registration and date of issuance of certificate of registration.

5. Composition levy

A registered taxable person who opts for composition levy shall at the time of supply of goods or services not issue a tax invoice. Instead it had to issue a bill of supply containing the particulars as required.

6. Non-taxable supply

A registered taxable person who supplies non-taxable goods or services shall instead of issuing a tax invoice had to issue a bill of supply containing the particulars as required.

7. Tax Indication in the Tax Invoice

Where A Registered Dealer providing supply for a consideration and which is liable to tax, then tax on such supply shall necessarily be indicates in all documents relating to assessment, tax invoice and other documents.

8. Credit Notes

- When a Credit note should be issued

When a registered dealer issued a tax invoice for supply of goods or services and in such invoice the amount of tax charged and taxable value is more than the taxable value and tax payable, then the taxable person, who supplied the goods, may issue a credit note to the recipient containing such particulars as may be prescribed.

- Time limit for issuing Credit Note

Thirtieth day of September following the end of the financial year in which such supply was made or date of filling of the relevant annual return; whichever is earlier:

- No credit note shall be issued by the said person if the incidence of tax and interest on such supply has been passed by him to any other person

9. Debit Note

- When a Debit Note should be issued

When a Registered Dealer issued tax invoice for supply of goods or services and in such invoice the amount of tax charged and taxable value is less than the taxable value and tax payable, then said taxable person, who supplied the goods, may issue a debit note to the recipient containing such particulars as may be prescribed.

- Time limit for issuing Credit Note

Thirtieth day of September following the end of the financial year in which such supply was made or date of filling of the relevant annual return; whichever is earlier:

10. Furnishing details of debit and credit note in return

- If any registered taxable person issues and receives a credit or debit note in relation to a supply of goods or services, he shall declare the details of credit and debit note in the return for the month during which the credit or debit note has been issued or received.
- Time limit for details given in the return

Return for any month but not later than month of September following the end of the financial year in which such supply was made or the date of filing of the relevant annual return; whichever is earlier.

- The tax liability shall be adjusted in the manner specified in GST Act.

11. Conclusion

Thus, GST act in itself contains various provisions in relation to time of issue and content of invoices and also contains provisions where the invoice is under-valued or over-valued in addition to the manner and timing of furnishing of the related details.

- **Accounts and Records**

- Maintenance of Accounts by Registered Persons
- (1) Every registered person shall keep and maintain, in addition to the particulars mentioned in sub-section (1) of section 35, a true
- and correct account of the goods or services imported or exported or of supplies attracting payment of tax on reverse charge along with the relevant documents, including invoices, bills of supply, delivery challans, credit notes, debit notes, receipt vouchers, payment vouchers and
- refund vouchers.
- (2) Every registered person, other than a person paying tax under section 10, shall maintain the accounts of stock in respect of goods received and supplied by him, and such accounts shall contain particulars of the opening balance, receipt, supply, goods lost, stolen, destroyed,
- written off or disposed of by way of gift or free sample and the balance of stock including raw materials, finished goods, scrap and wastage thereof.
- (3) Every registered person shall keep and maintain a separate account of advances received, paid and adjustments made thereto.
- (4) Every registered person, other than a person paying tax under section 10, shall keep and maintain an account, containing the details of tax payable (including tax payable in accordance with the provisions of sub-section (3) and sub-section (4) of section 9), tax collected and paid,

- input tax, input tax credit claimed, together with a register of tax invoice, credit notes, debit notes, delivery challan issued or received during any tax period.
- (5) Every registered person shall keep the particulars of –
- (a) names and complete addresses of suppliers from whom he has received the goods or services chargeable to tax under the Act;
- (b) names and complete addresses of the persons to whom he has supplied goods or services, where required under the provisions of this Chapter;
- (c) the complete address of the premises where goods are stored by him, including goods stored during transit along with the particulars of the stock stored therein.
- (6) If any taxable goods are found to be stored at any place(s) other than those declared under sub-rule (5) without the cover of any valid documents, the proper officer shall determine the amount of tax payable on such goods as if such goods have been supplied by the registered
- person.
- (7) Every registered person shall keep the books of account at the principal place of business and books of account relating to additional place of business mentioned in his certificate of registration and such books of account shall include any electronic form of data stored on any
- electronic device.
- (8) Any entry in registers, accounts and documents shall not be erased, effaced or overwritten, and all incorrect entries, otherwise than those of clerical nature, shall be scored out under attestation and thereafter, the correct entry shall be recorded and where the registers and other
- documents are maintained electronically, a log of every entry edited or deleted shall be maintained.
- (9) Each volume of books of account maintained manually by the registered person shall be serially numbered.
- (10) Unless proved otherwise, if any documents, registers, or any books of account belonging to a registered person are found at any premises other than those mentioned in the certificate of registration, they shall be presumed to be maintained by the said registered person.
- (11) Every agent referred to in clause (5) of section 2 shall maintain accounts depicting the,-
- (a) particulars of authorisation received by him from each principal to receive or supply goods or services on behalf of such principal separately;
- (b) particulars including description, value and quantity (wherever applicable) of goods or services received on behalf of every principal;
- (c) particulars including description, value and quantity (wherever applicable) of goods or services supplied on behalf of every principal;
- (d) details of accounts furnished to every principal; and
- (e) tax paid on receipts or on supply of goods or services effected on behalf of every principal.
- (12) Every registered person manufacturing goods shall maintain monthly production accounts showing quantitative details of raw materials or services used in the manufacture and quantitative details of the goods so manufactured including the waste and by products thereof.
- (13) Every registered person supplying services shall maintain the accounts showing quantitative details of goods used in the provision of services, details of input services utilised and the services supplied.

- (14) Every registered person executing works contract shall keep separate accounts for works contract showing –
- (a) the names and addresses of the persons on whose behalf the works contract is executed;
- (b) description, value and quantity (wherever applicable) of goods or services received for the execution of works contract;
- (c) description, value and quantity (wherever applicable) of goods or services utilized in the execution of works contract;
- (d) the details of payment received in respect of each works contract; and
- (e) the names and addresses of suppliers from whom he received goods or services.
- (15) The records under the provisions of this Chapter may be maintained in electronic form and the record so maintained shall be authenticated by means of a digital signature.
- (16) Accounts maintained by the registered person together with all the invoices, bills of supply, credit and debit notes, and delivery challans relating to stocks, deliveries, inward supply and outward supply shall be preserved for the period as provided in section 36 and shall, where such accounts and documents are maintained manually, be kept at every related place of business mentioned in the certificate of registration and shall be accessible at every related place of business where such accounts and documents are maintained digitally.
- (17) Any person having custody over the goods in the capacity of a carrier or a clearing and forwarding agent for delivery or dispatch thereof to a recipient on behalf of any registered person shall maintain true and correct records in respect of such goods handled by him on behalf of such registered person and shall produce the details thereof as and when required by the proper officer.
- (18) Every registered person shall, on demand, produce the books of accounts which he is required to maintain under any law for the time being in force.

- **Generation and Maintenance of Electronic Records**
- (1) Proper electronic back-up of records shall be maintained and preserved in such manner that, in the event of destruction of such records due to accidents or natural causes, the information can be restored within a
- reasonable period of time.
- (2) The registered person maintaining electronic records shall produce, on demand, the relevant records or documents, duly authenticated by him, in hard copy or in any electronically readable format.
- (3) Where the accounts and records are stored electronically by any registered person, he shall, on demand, provide the details of such files, passwords of such files and explanation for codes used, where necessary, for access and any other information which is required for such access along with a sample copy in print form of the information stored in such files.\

- **Records to be Maintained by Owner or Operator of Godown or Warehouse and Transporters**
- (1) Every person required to maintain records and accounts in accordance with the provisions of sub-section (2) of section 35, if not already

registered under the Act, shall submit the details regarding his business electronically on the common portal in FORM GST

- ENR-01, either directly or through a Facilitation Centre notified by the Commissioner and, upon validation of the details furnished, a unique enrolment number shall be generated and communicated to the said person.
- (2) The person enrolled under sub-rule (1) as aforesaid in any other State or Union territory shall be deemed to be enrolled in the State or Union territory.
- (3) Every person who is enrolled under sub-rule (1) shall, where required, amend the details furnished in FORM GST ENR-01 electronically on the common portal either directly or through a Facilitation Centre notified by the Commissioner.
- (4) Subject to the provisions of rule 56,-
- (a) any person engaged in the business of transporting goods shall maintain records of goods transported, delivered and goods stored in transit by him along with the Goods and Services Tax Identification Number of the registered consigner and consignee for each of his branches.
- (b) every owner or operator of a warehouse or godown shall maintain books of accounts with respect to the period for which particular goods remain in the warehouse, including the particulars relating to dispatch, movement, receipt and disposal of such goods.
- (5) The owner or the operator of the godown shall store the goods in such manner that they can be identified item-wise and owner-wise and shall facilitate any physical verification or inspection by the proper officer on demand.

- **Input Tax Credit**

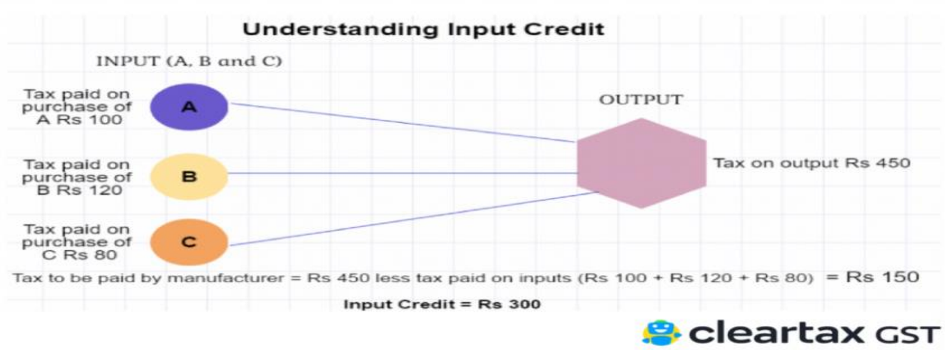
What is **input** tax credit?

Input credit means at the time of paying tax on output, you can reduce the tax you have already paid on inputs and pay the balance amount.

Here's how-

When you buy a product/service from a registered dealer you pay taxes on the purchase. On selling, you collect the tax. You adjust the taxes paid at the time of purchase with the amount of output tax (tax on sales) and balance liability of tax (tax on sales *minus* tax on purchase) has to be paid to the government. This mechanism is called utilization of input tax credit.

For example- you are a manufacturer: a. Tax payable on output (FINAL PRODUCT) is Rs 450 b. Tax paid on input (PURCHASES) is Rs 300 c. You can claim INPUT CREDIT



Who can claim ITC?

ITC can be claimed by a person registered under GST only if he fulfills ALL the conditions as prescribed.

a. The dealer should be in possession of tax invoice

b. The said goods/services have been received

c. Returns have been filed.
d. The tax charged has been paid to the government by the supplier.
e. When goods are received in installments ITC can be claimed only when the last lot is received.
f. No ITC will be allowed if depreciation has been claimed on tax component of a capital good
A person registered under composition scheme in GST cannot claim ITC.

What can be claimed as ITC?
ITC can be claimed only for business purposes. ITC will not be available for goods or services exclusively used for: a. Personal use b. Exempt supplies c. Supplies for which ITC is specifically not available
How to claim ITC?
All regular taxpayers must report the amount of input tax credit(ITC) in their monthly GST returns of Form GSTR-3B. The table 4 requires the summary figure of eligible ITC, Ineligible ITC and ITC reversed during the tax period. The format of the Table 4 is given below:

4. Eligible ITC

Details	Integrated Tax	Central Tax	State/UT Tax	Cess
1	2	3	4	5
(A) ITC Available (whether in full or part)				
(1) Import of goods				
(2) Import of services				
(3) Inward supplies liable to reverse charge (other than 1 & 2 above)				
(4) Inward supplies from ISD				
(5) All other ITC				
(B) ITC Reversed				
(1) As per rules 42 & 43 of CGST Rules				
(2) Others				
(C) Net ITC Available (A) – (B)				
(D) Ineligible ITC				
(1) As per section 17(5)				
(2) Others				

A taxpayer can claim ITC on a provisional basis in the GSTR-3B to an extent of 20% of the eligible ITC reported by suppliers in the auto-generated GSTR-2A return.
Hence, a taxpayer should cross-check the GSTR-2A figure before proceeding to file GSTR-3B. A taxpayer could have claimed any amount of provisional ITC until 9 October 2019. But, the CBIC has notified that from 9 October 2019, a taxpayer can only claim not more than 20% of the eligible ITC available in the GSTR-2A as provisional ITC. This means taht the amount of ITC reported in the GSTR-3B from 9 October 2019 will be the total of the actual ITC in GSTR-2A and the provisional ITC being 20% of the actual eligible ITC in the GSTR-2A. Hence, matching of the purchase register or expense ledger with the GSTR-2A becomes crucial.

Reversal of Input Tax Credit
ITC can be availed only on goods and services for business purposes. If they are used for non-business (personal) purposes, or for making exempt supplies ITC cannot be claimed . Apart from these, there are certain other situations where ITC will be reversed.
ITC will be reversed in the following cases-
1) Non-payment of invoices in 180 days– ITC will be reversed for invoices which were not paid within 180 days of issue.
2) Credit note issued to ISD by seller– This is for ISD. If a credit note was issued by the seller to the HO then the ITC subsequently reduced will be reversed.

3) Inputs partly for business purpose and partly for exempted supplies or for personal use – This is for businesses which use inputs for both business and non-business (personal) purpose. ITC used in the portion of input goods/services used for the personal purpose must be reversed proportionately.
4) Capital goods partly for business and partly for exempted supplies or for personal use – This is similar to above except that it concerns capital goods.
5) ITC reversed is less than required- This is calculated after the annual return is furnished. If total ITC on inputs of exempted/non-business purpose is more than the ITC actually reversed during the year then the difference amount will be added to output liability. Interest will be applicable.
The details of reversal of ITC will be furnished in **GSTR-3B.** To find out more about the segregation of ITC into business and personal use and subsequent calculations, please visit our article.

Reconciliation of ITC
ITC claimed by the person has to match with the details specified by his supplier in his GST return. In case of any mismatch, the supplier and recipient would be communicated regarding discrepancies after the filling of GSTR-3B. Learn how to go about reconciliation through our article on GSTR-2A Reconciliation. Please read our article on the detailed explanation of the reasons for mismatch of ITC and procedure to be followed to apply for re-claim of ITC.

Documents Required for Claiming ITC
The following documents are required for claiming ITC:
1. Invoice issued by the supplier of goods/services
2. The debit note issued by the supplier to the recipient (if any)
3. Bill of entry
4. An invoice issued under certain circumstances like the bill of supply issued instead of tax invoice if the amount is less than Rs 200 or in situations where the reverse charge is applicable as per GST law.
5. An invoice or credit note issued by the Input Service Distributor(ISD) as per the invoice rules under GST.
6. A bill of supply issued by the supplier of goods and services or both.

Special cases of ITC

a. ITC for Capital Goods

ITC is available for capital goods under GST.
However, ITC is not available for- i. Capital Goods used exclusively for making exempted goods ii. Capital Goods used exclusively for non-business (personal) purposes ***Note: No ITC will be allowed if depreciation has been claimed on tax component of capital goods.***

b. ITC on Job Work
A principal manufacturer may send goods for further processing to a job worker. For example, a shoe manufacturing company sends half-made shoes (upper part) to job workers who will fit the soles. In such a situation the principal manufacturer will be allowed to take credit of tax paid on the purchase of such goods sent on job work.
ITC will be allowed when goods are sent to job worker in both the cases:
1. From principal's place of business

2. Directly from the place of supply of the supplier of such goods

However, to enjoy ITC, the goods sent must be received back by the principal within 1 year (3 years for capital goods).

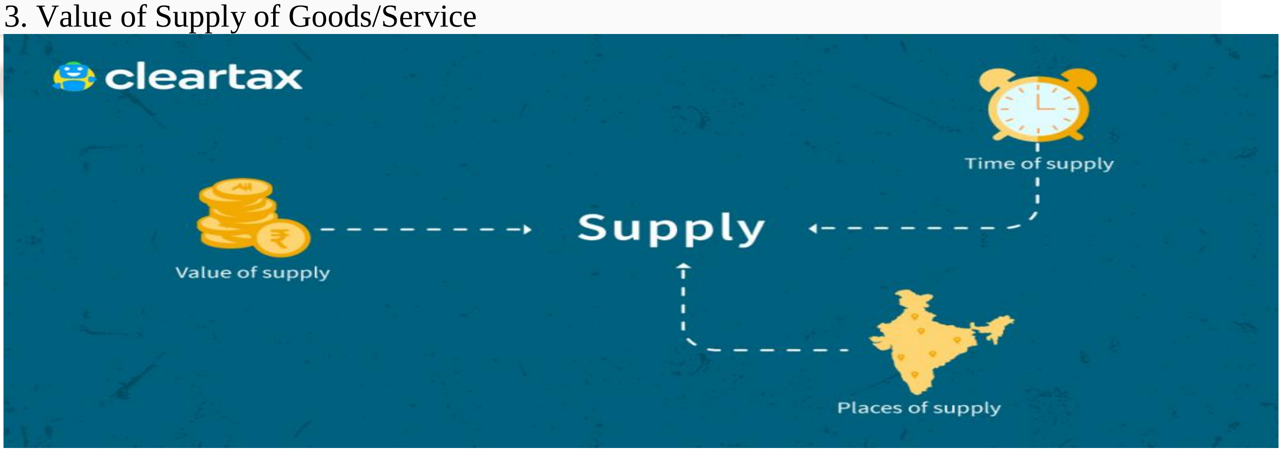
c. ITC Provided by Input Service Distributor (ISD)
An input service distributor (ISD) can be the head office (mostly) or a branch office or registered office of the registered person under GST. ISD collects the input tax credit on all the purchases made and distribute it to all the recipients (branches) under different heads like CGST, SGST/UTGST, IGST or cess.

d. ITC on Transfer of Business
This applies in cases of amalgamations/mergers/transfer of business. The transferor will have available ITC which will be passed to the transferee at the time of transfer of business**.**

- **Place and Time of Supply**

Time, Place and Value of Supply
Updated on Nov 02, 2019 - 05:39:17 PM
Under GST, 3 types of taxes can be charged in the invoice. SGST and CGST in case of an intra-state transaction and IGST in case of an interstate transaction. But deciding whether a particular transaction is inter or intrastate is not an easy task.
Think about an online training where customers are sitting in different parts of the world.
Say in case, hotel services, where the receiver may have an office in another state and may be visiting the hotel only temporarily, or where goods are sold on a train journey passing through different states.
To help address some of these situations, the IGST act lays down certain rules which define whether a transaction is inter or intrastate. These rules are called the place of supply rules.
There are three important concepts:

Importance of Time, Place and Value of Supply
1. Time of Supply
A. Supply of goods
B. Supply of services
C. Reverse charge
2. Place of supply
A. Supply of Goods
B. Supply of Services
3. Value of Supply of Goods/Service



Why are time place and value of supply important?

Time of supply means the point in time when goods/services are considered supplied'. When the seller knows the 'time', it helps him identify due date for payment of taxes.

Place of supply is required for determining the right tax to be charged on the invoice, whether IGST or CGST/SGST will apply.

Value of supply is important because GST is calculated on the value of the sale. If the value is calculated incorrectly, then the amount of GST charged is also incorrect

1. Time of Supply

Time of supply means the point in time when goods/services are considered supplied'. When the seller knows the 'time', it helps him identify due date for payment of taxes.

CGST/SGST or IGST must be paid at the time of supply. Goods and services have a separate basis to identify their time of supply. Let's understand them in detail.

A. Time of Supply of Goods

Time of supply of goods is earliest of:

1. Date of issue of invoice
2. Last date on which invoice should have been issued
3. Date of receipt of advance/ payment*.

For example:

Mr. X sold goods to Mr. Y worth Rs 1,00,000. The invoice was issued on 15th January. The payment was received on 31st January. The goods were supplied on 20th January.

*Note: GST is not applicable to advances under GST. GST in Advance is payable at the time of issue of the invoice. Notification No. 66/2017 – Central Tax issued on 15.11.2017

Let us analyze and arrive at the time of supply in this case.

Time of supply is earliest of –

1. Date of issue of invoice = **15th January**
2. Last date on which invoice should have been issued = 20th January

Thus the time of supply is 15th January.

What will happen if, in the same example an advance of Rs 50,000 is received by Mr. X on 1st January?

The time of supply for the advance of Rs 50,000 will be 1st January(since the date of receipt of advance is before the invoice is issued). For the balance Rs 50,000, the time of supply will be 15th January.

B. Time of Supply for Services

Time of supply of services is earliest of:

1. Date of issue of invoice
2. Date of receipt of advance/ payment.
3. Date of provision of services (if invoice is not issued within prescribed period)

Let us understand this using an **example**:

Mr. A provides services worth Rs 20000 to Mr. B on 1st January. The invoice was issued on 20th January and the payment for the same was received on 1st February.

In the present case, we need to 1st check if the invoice was issued within the prescribed time. The prescribed time is 30 days from the date of supply i.e. 31st January. The invoice was issued on 20th January. This means that the invoice was issued within a prescribed time limit.

The time of supply will be earliest of –

1. Date of issue of invoice = **20th January**
2. Date of payment = 1st February
This means that the time of supply of services will be 20th January.
C. Time of Supply under Reverse Charge
In case of reverse charge the time of supply for service receiver is earliest of:
1. Date of payment*
2. 30 days from date of issue of invoice for goods (60 days for services)
*w.e.f. 15.11.2017 'Date of Payment' is not applicable for goods and applies only to services. Notification No. 66/2017 – Central Tax

For example:
M/s ABC Pvt. Ltd undertook service of a director Mr. X worth Rs. 50,000 on 15th January. The invoice was raised on 1st February. M/s ABC Pvt Ltd made the payment on 1st May.
The time of supply, in this case, will be earliest of –
1. Date of payment = 1st May
2. 60 days from date of date of invoice = **2nd April**
Thus, the time of supply of services is 2nd April.

2. Place of supply

It is very important to understand the term 'place of supply' for determining the right tax to be charged on the invoice.

Here is an **example:**

Location of Service Receiver	Place of supply	Nature of Supply	GST Applicable
Maharashtra	Maharashtra	Intra-state	CGST + SGST
Maharashtra	Kerala	Inter-state	IGST

A. Place of Supply of Goods
Usually, in case of goods, the place of supply is where the goods are delivered.
So, the place of supply of goods is the place where the ownership of goods changes.
What if there is no movement of goods. In this case, the place of supply is the location of goods at the time of delivery to the recipient.
For example: In case of sales in a supermarket, the place of supply is the supermarket itself.
Place of supply in cases where goods that are assembled and installed will be the location where the installation is done.
For **example**, A supplier located in Kolkata supplies machinery to the recipient in Delhi. The machinery is installed in the factory of the recipient in Kanpur. In this case, the place of supply of machinery will be Kanpur.
B. Place of Supply for Services
Generally, the place of supply of services is the location of the service recipient.
In cases where the services are provided to an unregistered dealer and their location is not available the location of service provider will be the place of provision of service.
Special provisions have been made to determine the place of supply for the following services:

- Services related to immovable property
- Restaurant services
- Admission to events
- Transportation of goods and passengers
- Telecom services
- Banking, Financial and Insurance services.

In case of services related to immovable property, the location of the property is the place of provision of services.

Example 1:

Mr. Anil from Delhi provides interior designing services to Mr. Ajay(Mumbai). The property is located in Ooty(Tamil Nadu).

In this case, place of supply will be the location of the immovable property i.e. Ooty, Tamil Nadu.

Example 2:

A registered taxpayer offers passenger transport services from Bangalore to Hampi. The passengers do not have GST registration. What will be the place of supply in this case?

The place of supply is the place from where the departure takes place i.e. Bangalore in this case.

3. Value of Supply of Goods or Services

Value of supply means the money that a seller would want to collect the goods and services supplied.

The amount collected by the seller from the buyer is the value of supply.

But where parties are related and a reasonable value may not be charged, or transaction may take place as a barter or exchange; the GST law prescribes that the value on which GST is charged must be its 'transactional value'.

This is the value at which unrelated parties would transact in the normal course of business. It makes sure GST is charged and collected properly, even though the full value may not have been paid.

- **Valuation and Exemptions**

Valuation of Supply under GST

Goods and service tax or GST will be one tax to subsume all taxes. It will bring in "One nation one tax" regime.

Being a completely new form of indirect taxation there are many questions in the minds of the organizations. One of the most important questions is what is valuation of supply under GST? What will be included in the value of taxable supply on which GST is calculated?

Earlier regime

In the earlier regime, taxes are calculated on the value of goods/services:

Tax	**Value of goods/services**
Excise	Transaction value of goods or MRP
VAT	Sale Value
Service tax	Taxable value of service rendered

Valuation of supply under GST

Currently, GST will be charged on the 'transaction value'. Transaction value is the price actually paid(or payable) for the supply of goods/services between un-related parties (i.e., price is the sole consideration)

The value of supply under GST shall include:

1. Any taxes, duties, cess, fees, and charges levied under any act, except GST. GST Compensation Cess will be excluded if charged separately by the supplier.
2. Any amount that the supplier is liable to pay which has been incurred by the recipient and is not included in the price.
3. The value will include all **incidental expenses** in relation to sale such as packing, commission etc.
4. Subsidies linked to supply, except Government subsidies will be included.
5. Interest/late fee/penalty for delayed payment of consideration will be included.

Example

Let us consider an example of ABC, a manufacturer, selling tools and hardware like drills, polishers, spades etc. It sells a power drill to XYZ a wholesaler. The MRP is Rs. 5,500 but ABC sells it for Rs. 3,000.

Currently, the invoice will look like-

Power Drill	3,000
Add: Excise @ 12.5%	375
Subtotal	3,375
Add: VAT @14.5% (on subtotal)	490

Total	3,865

Value of supply under GST

The value of goods &/or services supplied is the transaction value, i.e. the price paid/payable, which is Rs 3,000 in the example. Assuming CGST=9% and SGST= 9%

Power Drill	3,000
Add: CGST @9%	270
Add: SGST @9%	270
Total	3,540

Discounts

Discounts will be treated differently under GST.Discounts given before or at the time of supply will be allowed as a deduction from transaction value. Discounts given after supply will be allowed only if certain conditions are satisfied.

Please read part II of this article which deals with discounts and impact of GST along with examples.

Valuation of supply when a transaction is not in INR.

When exports are made the invoice may be raised by the taxpayer in Foreign Currency. The IGST (if any) charged in the invoice will be converted using RBI Exchange Rate. RBI exchange rates are to be used in case of imports too. When reverse charge is applicable on imported supplies the invoice amount has to be converted using the RBI Exchange Rate.

EXEMPTIONS:

What is Exempt Supply?

Exempt supplies comprise the following three types of supplies:

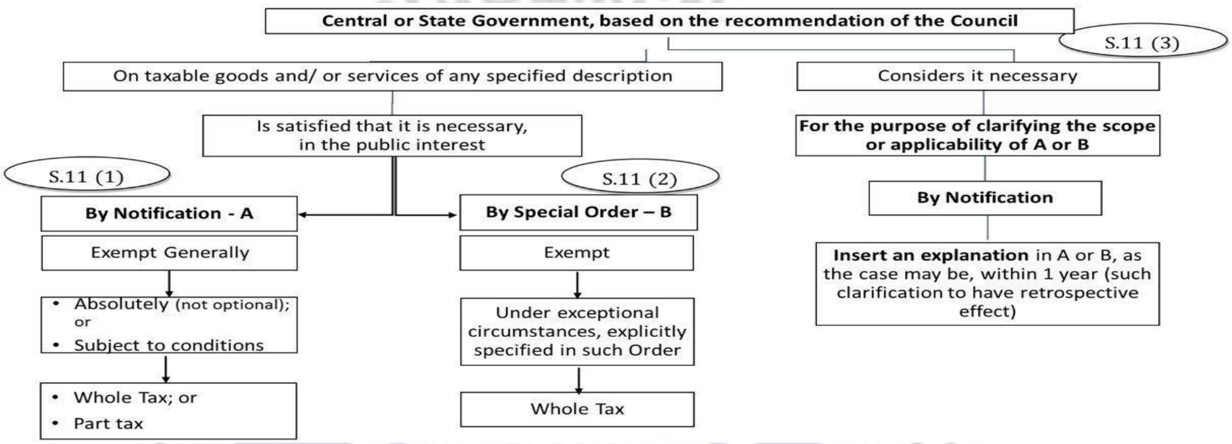
1. Supplies taxable at a 'NIL' rate of tax* (0% tax);
2. Supplies that are wholly or partially exempted from CGST or IGST, by way of a notification amending Section 11 of CGST Act or Section 6 of IGST Act;
3. Non-taxable supplies as defined under Section 2(78) – supplies that are not taxable under the Act (For Example Alcoholic liquor for human consumption.

Tax need not be paid on these supplies. Input tax credit attributable to exempt supplies will not be available for utilization/setoff.

*Zero-rated supplies such as exports would not be treated as supplies taxable at 'NIL' rate of tax;

Central or the State Governments are empowered to grant exemptions from GST. Conditions are:

1. Exemption should be in public interest
2. By way of issue of notification
3. Must be recommended by the GST Council
4. Absolute exemption or conditional exemption may be for any goods and / or services of any specified description.
5. Exemption by way of special order (not notification) may be granted exceptional circumstances.
6. Registered person supplying the goods and / or services is not entitled to collect tax higher than the effective rate, where the supply enjoys an absolute exemption.



Classification of Exemptions:

Supplier may be exempt – Exemption to the person making supplies-i.e supplier, regardless of the nature of outward supply.

Ex: Services by Securities and Exchange Board of India, Services by Charitable entities.

Certain Supplies may be exempt –Certain supplies due to their nature and type are exempted from GST. All supplies that are notified would be eligible for the exemption. Here, irrespective of who the the supplier is, exemption is allowed. not very much relevant.

Ex: Services by way of sponsorship of sporting events, Services by way of public conveniences

Types of Exemptions:

Absolute exemption: Exemption without any conditions.

Ex: Transmission or distribution of electricity by an electricity transmission or distribution utility, Services by Reserve Bank of India.

Conditional Exemption: Exemption subject to certain conditions.

Ex: Services by a hotel, inn, guest house, club or campsite, by whatever name called, for residential or lodging purposes, having declared tariff of a unit of accommodation less than ` 1000/- per day".

Conditional or partial exemption:

Intra-State supplies of goods and/or services received from an unregistered person by a registered person is exempted from payment of tax under reverse charge provided the aggregate value of such supplies received by a registered person from all or any of the suppliers does not exceed ` 5000/- in a day.

Exemption under one GST Law and the effect on another GST Law:

Note that the exemption allowed under the CGST Act cannot be deemed to be applicable under IGST Act. In other words, GST Exemption allowed in case of inter-State transactions is not the same as the GST exemptions available in case of Intra-State transactions.

Exemption under CGST Act	Deemed to be exempt under SGST / UTGST Act
	No auto-application of exemption under IGST Act
Exemption under IGST Act	No auto-application of exemption under CGST Act

Important Notifications issued for exemption from payment of GST:

Notification No.	Particulars
02/2017 Central Tax (Rate) dated 28.06.2017	Exempted supplies of around 149 items of goods in terms of Section 11(1) of the CGST Act, 2017. Ex. Electricity, Salt, fresh fruits, plastic bangles, passenger baggage etc. Amended vide Notification No.28/2017, 35/2017,42/2017, 7/2018, 19/2018 – Central Tax (Rate)
12/2017 Central Tax (Rate) dated 28.06.2017	Exemption to supply specified services under the CGST Act. More or less, all the exemptions were available earlier under the erstwhile service tax law Amended vide Notification No.21/2017, 25/2017, 32/2017 and 47/2017, 2/2018 – Central Tax (Rate)

2. Treatment of ITC if supply is exempt

In case of exempt supplies, amount of credit as attributable to exempt supplies shall be reversed.

How to determine the credit attributable to exempt supplies in the above case?

Credit attributable to exempt supplies = (A/T) x C

Where,

A = Aggregate value of exempt supplies (all supplies other than taxable and zero-rated supplies)

T = Total turnover of the person in the tax period

C= Common Credit

Common Credit	Total input tax in a period
Less:	Tax attributable exclusively for non-business purpose
Less:	Tax attributable exclusively for exempt supplies
Less:	Ineligible credits as per Section 17(5) Works contract, Rent a cab etc.
Less:	Tax attributable exclusively for taxable supplies (including zero-rated supplies)

3. What is a non-taxable supply?

"non-taxable supply" means a supply of goods or services or both which is not leviable to tax under CGST Act or under the IGST Act.

A transaction must be a 'supply' as defined under the GST law to qualify as a non-taxable supply under the GST.

Note: Only those supplies that are excluded from the scope of taxation under GST are covered by this definition – i.e., alcoholic liquor for human consumption, articles listed in section 9(2) or in schedule III.

- It must also be noted that the following items are not out of scope of GST. That means GST Rate has not yet been announced or notified for them.
  - *petroleu*m crude
  - high-speed diesel
  - motor spirit (commonly known as petrol)
  - natural gas and
  - aviation turbine fuel

4. Negative list under GST

- Services by employee to employer in the course/ relation to employment
- Services of funeral, burial, crematorium or mortuary
- Sale of land
- Sale of completed buildings
- Actionable claims (other than lottery, betting and gambling)
- Services by any court or Tribunal
- Functions performed by the MPs, MLAs etc.
- Duties performed by any person who holds any post in pursuance of the provisions of the Constitution in that capacity.

4. **Difference between Nil Rated, Exempt, Zero Rated and Non-GST supplies**

Supply Name	**Description**
Zero Rated	Exports Supplies made to SEZ or SEZ Developers.
Nil Rated	Supplies that have a declared rate of 0% GST. Example: Salt, grains, jaggery etc.
Exempt	Supplies are taxable but do not attract GST and for which ITC cannot be claimed. Example: Fresh milk, Fresh fruits, Curd, Bread etc.
Non-GST	These supplies do not come under the purview of GST law. Example: Alcohol for human consumption, Petrol etc.

- **Payments of Tax:**

1. What are payments to be made under GST?

Under GST the tax to be paid is mainly divided into 3 –

- IGST – To be paid when interstate supply is made (paid to center)
- CGST – To be paid when making supply within the state (paid to center)
- SGST – To be paid when making supply within the state (paid to state)

CIRCUMSTANCES	CGST	SGST	IGST
Goods sold from Delhi to Bombay	NO	NO	YES
Goods sold within Bombay	YES	YES	NO
Goods sold from Bombay to Pune	YES	YES	NO

Apart from the above payments a dealer is required to make these payments –

- Tax Deducted at Source (TDS) – TDS is a mechanism by which tax is deducted by the dealer before making the payment to the supplier

For example –

A government agency gives a road laying contract to a builder. The contract value is Rs 10 lakh.

When the government agency makes payment to the builder TDS @ 1% (which amounts to Rs 10,000) will be deducted and balance amount will be paid.

- Tax Collected at Source (TCS) – TCS is mainly for e-commerce aggregators. It means that any dealer selling through e-commerce will receive payment after deduction of TCS @ 2%.

This provision is currently relaxed and will not be applicable to notified by the government.

- Reverse Charge – The liability of payment of tax shifts from the supplier of goods and services to the receiver. To know more about reverse charge check out our

- Interest, Penalty, Fees and other payments

2. How to calculate the GST payment to be made?

Usually, the Input Tax Credit should be reduced from Outward Tax Liability to calculate the total GST payment to be made.

TDS/TCS will be reduced from the total GST to arrive at the net payable figure. Interest & late fees (if any) will be added to arrive at the final amount.

Also, ITC cannot be claimed on interest and late fees. Both Interest and late fees are required to be paid in cash.

The way the calculation is to be done is different for different types of dealers –

Regular Dealer

A regular dealer is liable to pay GST on the outward supplies made and can also claim Input Tax Credit (ITC) on the purchases made by him.

The GST payable by a regular dealer is the difference between the outward tax liability and the ITC.

Composition Dealer

The GST payment for a composition dealer is comparatively simpler. A dealer who has opted for composition scheme has to pay a fixed percentage of GST on the total outward supplies made.

GST is to be paid based on the type of business of a composition dealer.

Composition Scheme – Applicable GST Rate			
Type of Business	CGST	SGST	Total
Manufacturer and Traders (Goods)	0.5%	0.5%	1.0%
Restaurants not serving alcohol	2.5%	2.5%	5%
Service Providers are not eligible for Composition Scheme			

3. Who should make the payment?

These dealers are required to make GST payment –

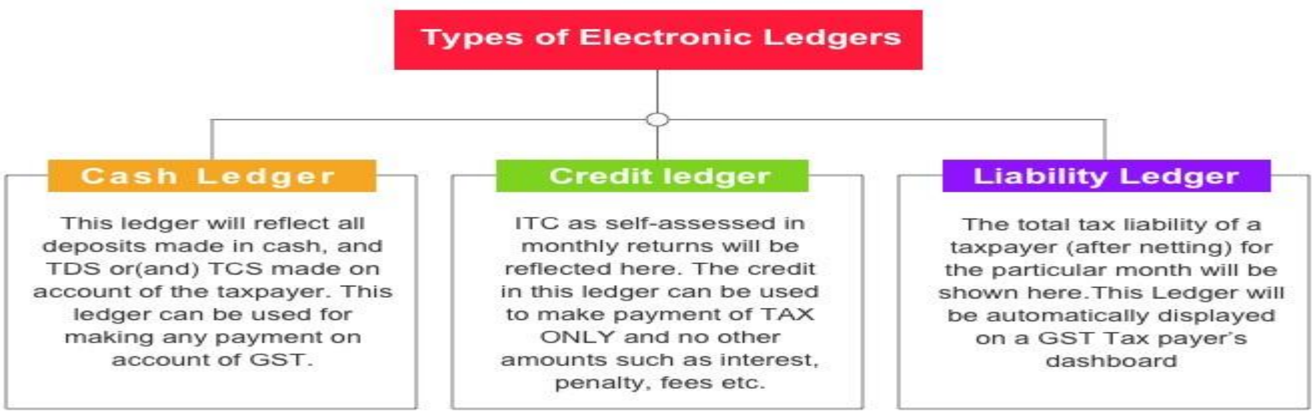
1. A Registered dealer is required to make GST payment if GST liability exists.
2. Registered dealer required to pay tax under Reverse Charge Mechanism(RCM).
3. E-commerce operator is required to collect and pay TCS
4. Dealers required deducting TDS

4. When should GST payment be made?

GST payment is to be made when the GSTR 3 is filed i.e by 20th of the next month.

5. What are the electronic ledgers?

These ledgers are maintained on the electronically on GST Portal.



6. How to make GST payment?

GST payment can be made in 2 ways –

- **Payment through Credit Ledger –**

The credit of ITC can be taken by dealers for GST payment. The credit can be taken only for payment of Tax. Interest, penalty and late fees cannot be paid by utilizing ITC.

- **Payment through Cash Ledger –**

GST payment can be made online or offline. The challan has to be generated on GST Portal for both online and offline GST payment.

Where tax liability is more than Rs 10,000, it is mandatory to pay taxes Online.

7. What is the penalty for non-payment or delayed payment?
If GST is short paid, unpaid or paid late interest at a rate of 18% is required to be paid by the dealer. Also, a penalty to be paid. The penalty is higher of Rs. 10,000 or 10% of the tax short paid or unpaid.

- **Job Work**

What is job work?
Job work means processing or working on raw materials or semi-finished goods supplied by the principal manufacturer to the job worker. This is to complete a part or whole of the process which results in the manufacture or finishing of an article or any other essential operation.
For example, big shoe manufacturers (principals) send out the half-made shoes (upper part) to smaller manufacturers (job workers) to fit in the soles. The job workers send back the shoes to the principal manufacturer
As per GST Act, job work means any treatment or process undertaken by a person on goods belonging to another registered person. The person doing the job work is called job worker.
Note: Value of goods sent by the principal will not be included in the aggregate turnover of the registered job worker

ITC on goods sent for job work
The principal manufacturer will be allowed to take credit of tax paid on the purchase of goods sent on job work.

However, there are certain conditions.
A. Goods can be sent to job worker:
1. From principal's place of business
2. Directly from the place of supply of the supplier of such goods

ITC will be allowed in both the cases.

B.Effective date for goods sent depends on place of business:
1. Sent from principal's place of business- Date of goods sent out
2. Send directly from the place of supply of the supplier of such goods- Date of receipt by job worker

Effective date is important because it will help to determine the point of taxation if the goods are not returned back within the specified time (see point C below)

C. The goods sent must be received back by the principal manufacture within the following period:
1. Capital Goods- 3 years
2. Input Goods- 1 year

D. In case goods are not received back within the period mentioned above, such goods will be treated as supply from the effective date and tax will be payable by the prinicpal.
For more details, please refer our article on Input Credit on Job Work and ITC-04.

Accompanying documents

Accounts & records
The responsibility for keeping proper accounts for the inputs or capital goods shall lie with the principal.

Challan

- All goods sent for job work must be accompanied by a challan.
- The challan will be issued by the principal.
- It will be issued even for the inputs or capital goods sent directly to the job-worker.
- The details of challans must be shown in **FORM GSTR-1**.
- Details of challans must also be filed through Form GST ITC – 04.

The challan issued must include the following particulars:

1. Date and number of the delivery challan
2. Name, address and GSTIN of the consigner and consignee
3. HSN code, description and quantity of goods
4. Taxable value, tax rate, tax amount- CGST, SGST, IGST, UTGST separately
5. Place of supply and signature

Form ITC-04
FORM GST ITC-04 must be submitted by the principal every quarter. He must include the details of challans in respect of the following-

- Goods dispatched to a job worker or
- Received from a job worker or
- Sent from one job worker to another

It must be furnished on or before 25th day of the month succeeding the quarter. For example, for Oct-Dec quarter, the due date is 25th Jan.
For more information on ITC-04 please refer our article.

Transitional provisions
This applies for items removed for job work before GST and returned on or after GST implementation.
No tax will be payable if the following conditions are satisfied:

- The goods are returned to the factory within 6 months from 1st July (i.e. by 31st Dec 2017) (extendable for a maximum period of 2 months).
- Goods held by job worker is declared in Form TRAN-1
- The principal manufacturer can sell off the items under job work only after paying required taxes (Excise & VAT if before GST. If he sells after 1st July 2017, then GST applies).

This rule does not apply to goods exported out of India within 6 months from the appointed date (extendable by not more than 2 months).
If the goods are not returned within the time period then ITC will be recovered from the principal manufacturer.

FORM GST TRAN-1
Both the job worker and the principal manufacturer must submit FORM GST TRAN-1 and mention the details of stock held by job worker for principal/ with job worker/by job
Due date is 30th November 2017
They must specify the stock of the inputs, semi-finished goods or finished goods held by them on 1st July 2017.

GST Rates on Job work

Job Work on	GST Rate
Agriculture, forestry, fishing, animal husbandry	0%
Intermediary services related to cultivation and animal rearing	0%
a) Printing of newspapers (b) Textile and textile products (c) Jewellery (d) Printing of books (including Braille books), journals and periodicals (e) Processing of hides, skins and leather	5%

UNIT 3

- STEPS TO FILE RETURNS AND THEIR DUE DATES
- TAX COLLECTION AT SOURCE
- DEMAND AND RECOVERY
- INSPECTION, SEARCH, SEIZURE AND ARREST
- ADVANCE RULING
- APPEALS AND REVISION

1. What is GST Return?

A return is a document containing details of income which a taxpayer is required to file with the tax administrative authorities. This is used by tax authorities to calculate tax liability.

Under GST, a registered dealer has to file GST returns that include:

- Purchases
- Sales
- Output GST (On sales)
- Input tax credit (GST paid on purchases)

To file GST returns, GST compliant sales and purchase invoices are required. You can generate GST compliant invoices for free on ClearTax BillBook.

3. Who should file GST Returns?

In the GST regime, any regular business has to file two monthly returns and one annual return. This amounts to 26 returns in a year.

The beauty of the system is that one has to manually enter details of one monthly return – GSTR-1. The other return GSTR 3B will get auto-populated by deriving information from GSTR-1 filed by you and your vendors.
There are separate returns required to be filed by special cases such as composition dealers.

3. What are the different types of GST Returns?
Here is a list of all the returns to be filed as prescribed under the GST Law along with the due dates.
As per the CGST Act subject to changes by CBIC Notifications

Return Form	**Particulars**	**Frequency**	**Due Date**
GSTR-1	Details of outward supplies of taxable goods and/or services affected	Monthly	11th* of the next month with effect from October 2018 *Previously, the due date was 10th
GSTR-2 **Suspended**	Details of inward supplies of taxable goods and/or services affected claiming the input tax credit.	Monthly	15th of the next month
GSTR-3 **Suspended**	Monthly return on the basis of finalization of details of outward supplies and inward supplies along with the payment of tax.	Monthly	20th of the next month
GSTR-3B	Simple Return in which summary of outward supplies along with Input Tax Credit is declared and payment of tax is affected by taxpayer	Monthly	20th of the next month
GSTR-4	Return for a taxpayer registered under the composition levy	Quarterly	18th of the month succeeding quarter
GSTR-5	Return for a Non-Resident foreign taxable person	Monthly	20th of the next month
GSTR-6	Return for an Input Service Distributor	Monthly	13th of the next month
GSTR-7	Return for authorities deducting tax at source.	Monthly	10th of the next month
GSTR-8	Details of supplies effected through e-	Monthly	10th of the next month

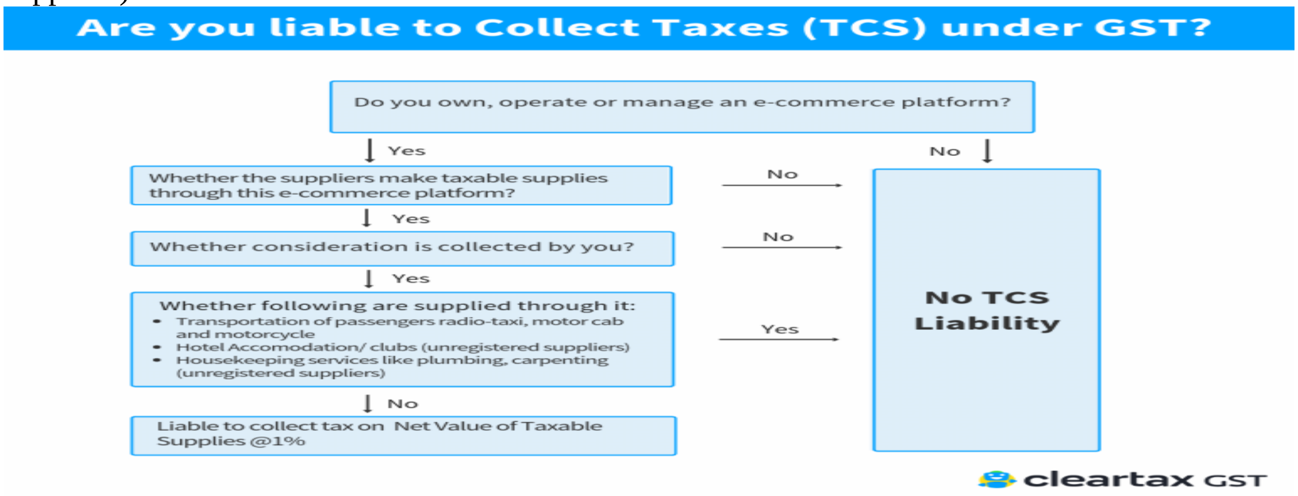
	commerce operator and the amount of tax collected		
GSTR-9	Annual Return for a Normal Taxpayer	Annually	31st December of next financial year*
GSTR-9A	Annual Return a taxpayer registered under the composition levy anytime during the year	Annually	31st December of next financial year*
GSTR-10	Final Return	Once, when GST Registration is cancelled or surrendered	Within three months of the date of cancellation or date of cancellation order, whichever is later.
GSTR-11	Details of inward supplies to be furnished by a person having UIN and claiming a refund	Monthly	28th of the month following the month for which statement is filed

- **TCS:**

1. What is TCS under GST?
Tax Collected at Source (TCS) under GST means the tax collected by an e-commerce operator from the consideration received by it on behalf of the supplier of goods, or services who makes supplies through operator's online platform. TCS will be charged as a percentage on the net taxable supplies.

2. Who is liable to collect TCS under GST?
Certain operators who own, operate and manage e-commerce platforms are liable to collect TCS. TCS applies only if the operators collect the consideration from the customers on behalf of vendors or suppliers. In other words, when the e-commerce operators pay the consideration collected to the vendors they have to deduct an amount as TCS and pay the net amount.
Here are few exceptions to the TCS provisions for the services provided by an e-commerce platform:
a. Hotel accommodation/clubs (unregistered suppliers)
b. Transportation of passengers – radio taxi, motor cab or motorcycle

c. Housekeeping services like plumbing, carpentry etc. (unregistered suppliers)



For eg – M/s XYZ stores (a proprietorship) is selling garments through Flipkart. Flipkart, being an e-commerce operator, before it makes the payment of consideration collected on behalf of XYZ, will be liable to deduct TCS.

3. When will the liability of collecting TCS arise?
TCS will be collected by e-commerce operators while making a payment to the vendor. This payment will be the consideration collected on the vendor's behalf for the supplies made by him via the online portal. This tax will be collected on the net value of taxable supplies.

4. What is the rate applicable under TCS?
The dealers or traders supplying goods and/or services through e-commerce operators will receive payment after deduction of TCS @ 1%. The rate is notified by the CBIC in Notification no. 52/2018 under CGST Act and 02/2018 under IGST Act. This means for an intra-state supply TCS at 1% will be collected, i.e 0.5 % under CGST and 0.5% under SGST. Similarly, for a transaction between the states, the TCS rate will be 1%, i.e under the IGST Act.

5. Registration requirements under TCS provisions of GST
The e-commerce operator liable to collect TCS have to compulsorily register under GST and there is no threshold limit exemption for it. Also, the sellers supplying goods through the online portal of e-commerce players are also mandatorily required to get registered under GST except for a few exceptions.
Registration conditions are as follows:
a. Every e-commerce operator who is required to collect TCS must mandatorily register under GST
b. Every person who supplies through an e-commerce operator, except those who make supplies notified under section 9 (5) of CGST Act.
Section 9 (5) mentions the following supplies – Transporting passengers by a radio-taxi and motorcycle OR providing accommodation in hotels, guest houses, for residential or lodging purposes (unregistered suppliers) OR services of house-keeping, such as plumber, carpenter etc(unregistered suppliers). In all three cases, the e-commerce operator shall pay GST, meet the compliances. Therefore, suppliers don't have to register if they provide these services listed in 9 (5), provided they do not cross the Rs 20 Lakhs threshold for registration.

c. Also, note that suppliers of **services** making a supply through an e-commerce platform are exempt from registration if their aggregate turnover is less than Rs 20 Lakhs (assuming they do not make inter-state supplies).
d. Suppliers of **goods** supplying through an e-commerce platform are not exempt from registration.
e. An e-commerce company must register itself in GST in every state it supplies goods or services to.

6. Due date for depositing TCS
TCS will be deducted during the month in which the supply is made. It will be deposited within 10 days from the end of the month of supply to the credit of the government. Payment of the tax collected will be made in the following manner :
a. IGST & CGST will be paid to the central government
b. SGST to respective state governments

7. How to compute taxable value of the supplies for TCS?
The value for the collection of the tax will be the 'Net Value Of Taxable Supplies.' This net taxable value will be calculated as under :
The total value of taxable supplies of goods and/or services (other than notified services under GST law by all registered persons)
Less: Taxable supplies returned to the suppliers through the e-commerce operator
=Net value of Taxable Supplies
For eg – XYZ Ltd, a registered supplier is supplying goods through an e-commerce operator. It has made supplies of Rs. 55,00,000 in the month of Sep 2018. The goods returned were worth Rs. 5,00,000 to XYZ Ltd. during the month of Sep 2018.
Here, the net value of taxable supplies for TCS collection will be Rs. 50,00,000 and TCS @ 1%, i.e Rs. 50,000 will be deducted by the e-commerce operator. Hence, the final payment to be made to the supplier is Rs 49,50,000.

8. Which form can one use to file TCS returns?
E-commerce operators have to file GSTR-8 by 10th of the next month in which the tax was collected. This return will only be filed once the tax collected has been deposited to the respective credit of the government. For instance, the due date for GSTR-8 for September 2018 is on the 10th of October 2018.

9. Using GSTR-8 data by e-commerce sellers in GSTR-2A
The details submitted by the operators in GSTR 8 will be available to all the suppliers in GSTR 2A. The supplies will be available GSTR 2A after the due date of filing GSTR-8. The tax collected will be reflected in the electronic cash ledger of the respective suppliers. The suppliers can claim the credit accordingly after matching and reconciling their supplies with the details in GSTR 2A.
GSTR 8 cannot be revised once it is filed. Any discrepancy found while matching and reconciling the supply data and GSTR 2A will be communicated to the operator and the supplier. If the discrepancy is not rectified within the given time period, then the tax amount will be added to the liability of the supplier. The supplier will have to pay the difference along with the interest if any.

10. Impact of the TCS provisions

From the e-commerce operators viewpoint, they must register under GST in every state in which they operate before 1st Oct 2018, which is the effective date of implementing TCS provisions. The ERP systems have to be well integrated to apply these provisions in the day to day businesses smoothly. Moreover, the working capital of the suppliers selling through an e-commerce operator will be blocked until they file their return and claim the excess taxes paid. This can prevent SMEs vendors from selling goods or supplying services on the online portal.

- **DEMAND AND RECOVERY**

Notice and Order for Demand of Amounts Payable Under the Act

(1) The proper officer shall serve, along with the (a) notice under sub-section (1) of section 73 or sub-section (1) of section 74 or subsection

(2) of section 76, a summary thereof electronically in FORM GST DRC-01,

(b) statement under sub-section (3) of section 73 or sub-section (3) of section 74, a summary thereof electronically in FORM GST DRC-02,

specifying therein the details of the amount payable.

(2) Where, before the service of notice or statement, the person chargeable with tax makes payment of the tax and interest in accordance with the provisions of sub-section (5) of section 73 or, as the case may be, tax, interest and penalty in accordance with the provisions of subsection

(5) of section 74, he shall inform the proper officer of such payment in FORM GST DRC-03 and the proper officer shall issue an acknowledgement, accepting the payment made by the said person in FORM GST DRC–04.

(3) Where the person chargeable with tax makes payment of tax and interest under sub-section (8) of section 73 or, as the case may be, tax, interest and penalty under sub-section (8) of section 74 within thirty days of the service of a notice under sub-rule (1), he shall intimate the

proper officer of such payment in FORM GST DRC-03 and the proper officer shall issue an order in FORM GST DRC-05 concluding the proceedings in respect of the said notice.

(4) The representation referred to in sub-section (9) of section 73 or sub-section (9) of section 74 or sub-section (3) of section 76 shall be in FORM GST DRC-06.

(5) A summary of the order issued under sub-section (9) of section 73 or sub-section (9) of section 74 or sub-section (3) of section 76 shall be uploaded electronically in FORM GST DRC-07, specifying therein the amount of tax, interest and penalty payable by the person chargeable with tax.

(6) The order referred to in sub-rule (5) shall be treated as the notice for recovery.

(7) Any rectification of the order, in accordance with the provisions of section 161, shall be made by the proper officer in FORM GST DRC-08.

Recovery by Deduction from Any Money Owed

Where any amount payable by a person (hereafter referred to in this rule as "the defaulter") to the Government under any of the provisions of the Act or the rules made there under is not paid, the proper officer may require, in FORM GST DRC-09, a specified officer to deduct the amount from any money owing to such defaulter in accordance with the provisions of clause (a) of sub-section (1) of section 79.

Explanation: For the purposes of this rule, "specified officer" shall mean any officer of the Central Government or a State Government or the Government of a Union territory or a local authority, or of a Board or Corporation or a company owned or controlled, wholly or partly, by the Central Government or a State Government or the Government of a Union territory or a local authority.

Recovery by Sale of Goods Under the Control of Proper Officer

(1) Where any amount due from a defaulter is to be recovered by selling goods belonging to such person in accordance with the provisions of clause (b) of sub-section (1) of section 79, the proper officer shall prepare an inventory and estimate the market value of such goods and proceed to sell only so much of the goods as may be required for recovering the amount payable along with the administrative expenditure incurred on the recovery process.

(2) The said goods shall be sold through a process of auction, including e-auction, for which a notice shall be issued in FORM GST DRC-10 clearly indicating the goods to be sold and the purpose of sale.

(3) The last day for submission of bid or the date of auction shall not be earlier than fifteen days from the date of issue of the notice referred to in sub-rule (2): Provided that where the goods are of perishable or hazardous nature or where the expenses of keeping them in custody are likely to exceed their value, the proper officer may sell them forthwith.

(4) The proper officer may specify the amount of pre-bid deposit to be furnished in the manner specified by such officer, to make the bidders eligible to participate in the auction, which may be returned to the unsuccessful bidders, forfeited in case the successful bidder fails to make the payment of the full amount, as the case may be.

(5) The proper officer shall issue a notice to the successful bidder in FORM GST DRC-11 requiring him to make the payment within a period of fifteen days from the date of auction. On payment of the full bid amount, the proper officer shall transfer the

possession of the said goods to the successful bidder and issue a certificate in FORM GST DRC-

(6) Where the defaulter pays the amount under recovery, including any expenses incurred on the process of recovery, before the issue of the notice under sub-rule (2), the proper officer shall cancel the process of auction and release the goods.

(7) The proper officer shall cancel the process and proceed for re-auction where no bid is received or the auction is considered to be non-competitive due to lack of adequate participation or due to low bids.

Recovery From a Third Person

(1) The proper officer may serve upon a person referred to in clause (c) of sub-section (1) of section 79 (hereafter referred to in this rule as "the third person"), a notice in FORM GST DRC-13 directing him to deposit the amount specified in the notice.

(2) Where the third person makes the payment of the amount specified in the notice issued under sub-rule (1), the proper officer shall issue a certificate in FORM GST DRC-14 to the third person clearly indicating the details of the liability so discharged.

Recovery through Execution of a Decree, etc

Where any amount is payable to the defaulter in the execution of a decree of a civil court for the payment of money or for sale in the enforcement of a mortgage or charge, the proper officer shall send a request in FORM GST DRC- 15 to the said court and the court shall, subject to the provisions of the Code of Civil Procedure, 1908 (5 of 1908), execute the attached decree, and credit the net proceeds for settlement of the amount recoverable.

Recovery by Sale of Movable or Immovable Property

(1) The proper officer shall prepare a list of movable and immovable property belonging to the defaulter, estimate their value as per the prevalent market price and issue an order of attachment or distraint and a notice for sale in FORM GST DRC- 16 prohibiting any transaction with regard to such movable and immovable property as may be required for the recovery of the amount due: Provided that the attachment of any property in a debt not secured by a negotiable instrument, a share in a corporation, or other movable property not in the possession of the defaulter except for property deposited in, or in the custody of any Court, shall be attached in the manner provided in rule 151.

(2) The proper officer shall send a copy of the order of attachment or distraint to the concerned Revenue Authority or Transport Authority or any such Authority to place encumbrance on the said movable or immovable property, which shall be removed only on the written instructions from the proper officer to that effect.

(3) Where the property subject to the attachment or distraint under sub-rule (1) is-

(a) an immovable property, the order of attachment or distraint shall be affixed on the said property and shall remain affixed till the confirmation of sale;

(b) a movable property, the proper officer shall seize the said property in accordance with the provisions of chapter XIV of the Act and the custody of the said property shall either be taken by the proper officer himself or an officer authorised by him.
(4) The property attached or distrained shall be sold through auction, including e-auction, for which a notice shall be issued in FORM GST DRC- 17 clearly indicating the property to be sold and the purpose of sale.

(5) Notwithstanding anything contained in the provision of this Chapter, where the property to be sold is a negotiable instrument or a share in a corporation, the proper officer may, instead of selling it by public auction, sell such instrument or a share through a broker and the said
broker shall deposit to the Government so much of the proceeds of such sale, reduced by his commission, as may be required for the discharge of the amount under recovery and pay the amount remaining, if any, to the owner of such instrument or a share.

(6) The proper officer may specify the amount of pre-bid deposit to be furnished in the manner specified by such officer, to make the bidders eligible to participate in the auction, which may be returned to the unsuccessful bidders or, forfeited in case the successful bidder fails to make the payment of the full amount, as the case may be.

(7) The last day for the submission of the bid or the date of the auction shall not be earlier than fifteen days from the date of issue of the notice referred to in sub-rule (4):
Provided that where the goods are of perishable or hazardous nature or where the expenses of keeping them in custody are likely to exceed their value, the proper officer may sell them forthwith.

(8) Where any claim is preferred or any objection is raised with regard to the attachment or distraint of any property on the ground that such property is not liable to such attachment or distraint, the proper officer shall investigate the claim or objection and may postpone the sale
for such time as he may deem fit.

(9) The person making the claim or objection must adduce evidence to show that on the date of the order issued under sub-rule (1) he had some interest in, or was in possession of, the property in question under attachment or distraint.

(10) Where, upon investigation, the proper officer is satisfied that, for the reason stated in the claim or objection, such property was not, on the said date, in the possession of the defaulter or of any other person on his behalf or that, being in the possession of the defaulter on the said date, it was in his possession, not on his own account or as his own property, but on account of or in trust for any other person, or partly on his own account and partly on account of some other person, the proper officer shall make an order releasing the property, wholly or to such extent as he thinks fit, from attachment or distraint.

(11) Where the proper officer is satisfied that the property was, on the said date, in the possession of the defaulter as his own property and not on account of any other person, or was in the possession of some other person in trust for him, or in the occupancy of a tenant or other person paying rent to him, the proper officer shall reject the claim and proceed with the process of sale through auction.

(12) The proper officer shall issue a notice to the successful bidder in FORM GST DRC-11 requiring him to make the payment within a period of fifteen days from the date of such notice and after the said payment is made, he shall issue a certificate in FORM GST DRC-12 specifying the details of the property, date of transfer, the details of the bidder and the amount paid and upon issuance of such certificate, the rights, title and interest in the property shall be deemed to be transferred to such bidder:
Provided that where the highest bid is made by more than one person and one of them is a co-owner of the property, he shall be deemed to be the successful bidder.

(13) Any amount, including stamp duty, tax or fee payable in respect of the transfer of the property specified in sub-rule (12), shall be paid to the Government by the person to whom the title in such property is transferred.

(14) Where the defaulter pays the amount under recovery, including any expenses incurred on the process of recovery, before the issue of the notice under sub-rule (4), the proper officer shall cancel the process of auction and release the goods.

(15) The proper officer shall cancel the process and proceed for re-auction where no bid is received or the auction is considered to be non-competitive due to lack of adequate participation or due to low bids.

Prohibition Against Bidding or Purchase by Officer
No officer or other person having any duty to perform in connection with any sale under the provisions of this Chapter shall, either directly or indirectly, bid for, acquire or attempt to acquire any interest in the property sold.

Prohibition Against Sale on Holidays
No sale under the rules under the provision of this chapter shall take place on a Sunday or other general holidays recognized by the Government or on any day which has been notified by the Government to be a holiday for the area in which the sale is to take place.

Assistance by Police
The proper officer may seek such assistance rom the officer in-charge of the jurisdictional police station as may be necessary in the discharge of his duties and the said officer-in-charge shall depute sufficient number of police officers for providing such assistance.

Attachment of Debts and Shares, etc

(1) A debt not secured by a negotiable instrument, a share in a corporation, or other movable property not in the possession of the defaulter except for property deposited in, or in the custody of any court shall be attached by a written order in FORM GST DRC-16 prohibiting.-

(a) in the case of a debt, the creditor from recovering the debt and the debtor from making payment thereof until the receipt of a further order from the proper officer;

(b) in the case of a share, the person in whose name the share may be standing from transferring the same or receiving any dividend thereon;

(c) in the case of any other movable property, the person in possession of the same from giving it to the defaulter.

(2) A copy of such order shall be affixed on some conspicuous part of the office of the proper officer, and another copy shall be sent, in the case of debt, to the debtor, and in the case of shares, to the registered address of the corporation and in the case of other movable property, to the person in possession of the same.

(3) A debtor, prohibited under clause (a) of sub-rule (1), may pay the amount of his debt to the proper officer, and such payment shall be deemed as paid to the defaulter.

Attachment of Property in Custody of Courts or Public Officer

Where the property to be attached is in the custody of any court or Public Officer, the proper officer shall send the order of attachment to such court or officer, requesting that such property, and any interest or dividend becoming payable thereon, may be held till the recovery of the amount payable.

Attachment of Interest in Partnership

(1) Where the property to be attached consists of an interest of the defaulter, being a partner, in the partnership property, the proper officer may make an order charging the share of such partner in the partnership property and profits with payment of the amount due under the certificate, and may, by the same or subsequent order, appoint a receiver of the share of such partner in the profits, whether already declared or accruing, and of any other money which may become due to him in respect of the partnership, and direct accounts and enquiries and make an order for the sale of such interest or such other order as the circumstances of the case may require.

(2) The other partners shall be at liberty at any time to redeem the interest charged or, in the case of a sale being directed, to purchase the same.

Disposal of Proceeds of Sale of Goods and Movable or Immovable Property

The amounts so realised from the sale of goods, movable or immovable property, for the recovery of dues from a defaulter shall,-

(a) first, be appropriated against the administrative cost of the recovery process;

(b) next, be appropriated against the amount to be recovered;

(c) next, be appropriated against any other amount due from the defaulter under the Act or the Integrated Goods and Services Tax Act, 2017 or the Union Territory Goods and Services Tax Act, 2017 or any of the State Goods and Services Tax Act, 2017 and the rules made there under; and

(d) Any balance, be paid to the defaulter.

Recovery through Land Revenue Authority

Where an amount is to be recovered in accordance with the provisions of clause (e) of sub-section (1) of section 79, the proper officer shall send a certificate to the Collector or Deputy Commissioner of the district or any other officer authorised in this behalf in FORM GST DRC-18 to recover from the person concerned, the amount specified in the certificate as if it were an arrear of land revenue.

Recovery through Court

Where an amount is to be recovered as if it were a fine imposed under the Code of Criminal Procedure, 1973, the proper officer shall make an application before the appropriate Magistrate in accordance with the provisions of clause (f) of sub-section (1) of section 79 in FORM GST DRC- 19 to recover from the person concerned, the amount specified thereunder as if it were a fine imposed by him.

Recovery from Surety

Where any person has become surety for the amount due by the defaulter, he may be proceeded against under this Chapter as if he were the defaulter.

Payment of Tax and Other Amounts in Instalments

(1) On an application filed electronically by a taxable person, in FORM GST DRC- 20, seeking extension of time for the payment of taxes or any amount due under the Act or for allowing payment of such taxes or amount in instalments in accordance with the provisions of section 80, the Commissioner shall call for a report from the jurisdictional officer about the financial ability of the taxable person to pay the said amount.

(2) Upon consideration of the request of the taxable person and the report of the jurisdictional officer, the Commissioner may issue an order in FORM GST DRC-21 allowing the taxable person further time to make payment and/or to pay the amount in such monthly instalments, not exceeding twenty-four, as he may deem fit.

(3) The facility referred to in sub-rule (2) shall not be allowed where-

(a) the taxable person has already defaulted on the payment of any amount under the Act or the Integrated Goods and Services Tax Act, 2017 or the Union Territory Goods and Services Tax Act, 2017 or any of the State Goods and Services Tax Act, 2017, for which the recovery process is on;

(b) the taxable person has not been allowed to make payment in installments in the preceding financial year under the Act or the Integrated Goods and Services Tax Act, 2017 or the Union Territory Goods and Services Tax Act, 2017 or any of the State Goods and Services Tax Act, 2017;

(c) The amount for which installment facility is sought is less than twenty–five thousand rupees.

Provisional Attachment of Property

(1) Where the Commissioner decides to attach any property, including bank account in accordance with the provisions of section 83, he shall pass an order in FORM GST DRC-22 to that effect mentioning therein, the details of property which is attached.

(2) The Commissioner shall send a copy of the order of attachment to the concerned Revenue Authority or Transport Authority or any such Authority to place encumbrance on the said movable or immovable property, which shall be removed only on the written instructions from the Commissioner to that effect.

(3) Where the property attached is of perishable or hazardous nature, and if the taxable person pays an amount equivalent to the market price of such property or the amount that is or may become payable by the taxable person, whichever is lower, then such property shall be released forthwith, by an order in FORM GST DRC-23, on proof of payment.

(4) Where the taxable person fails to pay the amount referred to in sub-rule (3) in respect of the said property of perishable or hazardous nature, the Commissioner may dispose of such property and the amount realized thereby shall be adjusted against the tax, interest, penalty, fee or any other amount payable by the taxable person.

(5) Any person whose property is attached may, within seven days of the attachment under sub-rule (1), file an objection to the effect that the property attached was or is not liable to attachment, and the Commissioner may, after affording an opportunity of being heard to the person filing the objection, release the said property by an order in FORM GST DRC- 23.

(6) The Commissioner may, upon being satisfied that the property was, or is no longer liable for attachment, release such property by issuing an order in FORM GST DRC- 23.

Recovery from Company in Liquidation
Where the company is under liquidation as specified in section 88, the Commissioner shall notify the liquidator for the recovery of any amount representing tax, interest, penalty or any other amount due under the Act in FORM GST DRC -24.

- **INSPECTION, SEARCH, SEIZURE AND ARREST**

  In any tax administration the provisions for Inspection, Search, Seizure and Arrest are provided to protect the interest of genuine tax payers (as the Tax evaders, by evading the tax, get an unfair advantage over the genuine tax payers) and as a deterrent for tax evasion. These provisions are also required to safeguard Government's legitimate dues. Thus, these provisions act as a deterrent and by checking evasion provide a level playing field to genuine tax payers.

  2. It may be mentioned that the options of Inspection, Search, Seizure and Arrest are exercised, only in exceptional circumstances and as a last resort, to protect the Government Revenue. Therefore, to ensure that these provisions are used properly, effectively and the rights of tax payers are also protected, it is stipulated that Inspection, Search or Seizure can only be carried out when an officer, of the rank of Joint Commissioner or above, has reasons to believe the existence of such exceptional circumstances. In such cases the Joint Commissioner may authorise, in writing, any other officer to cause inspection, search and seizure. However, in case of arrests the same can be carried out only where the person is accused of offences specified for this purpose and the tax amount involved is more than specified limit. Further, the arrests under GST Act can be made only under authorisation from the Commissioner.

  3. The circumstances which may warrant exercise of these options are as follows:
  (i) Inspection 'Inspection' is a softer provision than search
  which enables officers to access any place of business or of a person engaged in transporting goods or who is an owner or an operator of a warehouse or godown. As discussed above the inspection can be carried out by an officer of CGST/SGST only upon a written authorization given by an officer of the rank of Joint Commissioner or above. A Joint Commissioner or an officer higher in rank can give such authorization only if he has reasons to believe that the person concerned has done one of the following actions:

  (a) Suppression of any transaction relating to supply of goods or services or stock in hand
  (b) Claimed excess input tax credit
  (c) Contravention of any provisions of the Act or the Rules to evade tax
  (d) Transporting or keeping goods which escaped payment of tax or manipulating accounts or stocks which may cause evasion of tax

Inspection can also be done of the conveyance, carrying a consignment of value exceeding specified limit. The person in charge of the conveyance has to produce documents/devices for verification and allow inspection. Inspection during transit can be done even without authorization of Joint Commissioner.

(ii) Inspection in movement

(a) Any consignment, value of which, is exceeding Rs. 50,000/-, may be stopped at any place for verification of the documents/ devices prescribed for movement of such consignments.

(b) If on verification of the consignment, during transit, it is found that the goods were removed without prescribed document or the same are being supplied in contravention of any provisions of the Act then the same can be detained or seized and may be subjected to penalties as prescribed.

(c) To ensure transparency and minimise hardships to the trade, the law provides that if during verification, in transit, a consignment is held up beyond 30 minutes the transporter can feed details on the portal. This will ensure accountability and transparency for all such verifications. Moreover, for verification during movement of consignment will also be done through a Digital interface and therefore the physical intervention will be minimum and as has already been mentioned that in case of a delay beyond 30 minutes the transporter can feed the details on the portal.

(iii) Search & Seizure

The provisions of search and seizure also provides enough safeguards and the GST Law stipulates that search of any place of business etc. can be carried out only under authorisation from an officer not below the rank of Joint Commissioner and if he has a reason to believe that the person concerned has done at least one of the following:

(a) Goods liable to confiscation or any documents/books/record/things, which may be useful for or relevant to any proceedings, are secreted in any place then all such places can be searched

(b) All such goods/documents/books/record/ things may be seized, however, if it is not practicable to seize any such goods then the same may be detained. The person from whom these are seized shall be entitled to take copies/extracts of seized records

(c) The seized documents/books/things shall be retained only till the time the same are required for examination/enquiry/ proceedings and if these are not relied on for the case then the same shall be returned within 30 days from the issuance of show cause notice

(d) The seized goods shall be provisionally released on execution of bond and furnishing a security or on payment of applicable tax, interest and penalty

(e) In case of seizure of goods, a notice has to be issued within six months, if no notice is issued within a period of six months then all such goods shall be returned. However, this period of six months can be extended by Commissioner for another six months on sufficient cause.

(f) An inventory of the seized goods/documents/ records is required to be made by the officer and the person, from whom the same are seized, shall be given a copy of the same.

(g) To ensure that the provisions for search and seizure are implemented in a proper and transparent manner, the Act stipulates that the searches and seizures shall be carried out in accordance with the provisions of Criminal Procedure Code, 1973. It ensures that any search or seizure should be made in the presence of two or more independent witnesses, a record of entire proceedings is made and forwarded to the Commissioner forthwith.

(iv) Arrests

In the administration of taxation the provisions for arrests are created to tackle the situations created by some unscrupulous tax evaders. To some these may appear very harsh but these are necessary for efficient tax administration and also act as a deterrent and instil a sense of discipline. The provisions for arrests under GST Law have sufficient inbuilt safeguards to ensure that these are used only under authorisation from the Commissioner. Besides this, the GST Law also stipulates that arrests can be made only in those cases where the person is involved in offences specified for the purposes of arrest and the tax amount involved in such offence is more than the specified limit. The salient points of these provisions are:

(a) Provisions for arrests are used in exceptional circumstance and only with prior authorisation from the Commissioner.

(b) The law lays down a stringent criteria and procedure to be followed for arresting a person. A person can be arrested only if the criteria stipulated under the law for this purpose is satisfied i.e. if he has committed specified offences (not any offence) and the tax amount is exceeding rupees 200 lakhs. However, the monetary limit shall not be applicable if the offences are committed again even after being convicted earlier i.e. repeat offender of the specified offences can be arrested irrespective of the tax amount involved in the case.

(c) Further, even though a person can be arrested for specified offences involving tax amount exceeding Rs. 200 lakhs, however, where the tax involved is less than Rs. 500 lakhs, the offences are classified as non-cognizable and bailable and all such arrested persons shall be released on Bail by Deputy/Assistant Commissioner. But in case of arrests for specified offences where the tax amount involved is more than Rs. 500 lakhs, the offence is classified as cognizable and non-bailable and in such cases the bail can be considered by a Judicial Magistrate only.

- **ADVANCE RULING**

What is advance ruling?

Any advance tax ruling is a written interpretation of tax laws. It is issued by tax authorities to corporations and individuals who request for clarification of certain tax matters. An advance ruling is often requested when the taxpayer is confused and uncertain about certain provisions. Advance tax ruling is applied for: **before starting the proposed activity.**

For example, under income tax, advance ruling is available in international taxation. This is to help non-residents ascertain the income-tax liability, plan their income-tax in advance and avoid long drawn and costly legal disputes.

As per GST, the advance ruling is a written decision given by the tax authorities to an applicant on questions relating to the supply of goods/services.

Why is advance ruling under GST necessary?

The objective of any advance ruling, including under GST is to-

1. Provide certainty for tax liability in advance in relation to a future activity to be undertaken by the applicant
2. Attract Foreign Direct Investment (FDI) – By clarifying taxation and showing a clear picture of the future tax liability of the FDI. The clarity and clean taxation will attract non-residents who do not want to get involved in messy tax disputes.
3. Reduce litigation and costly legal disputes
4. Give decisions in a timely, transparent and inexpensive manner

When can one request for GST Advance Ruling?

Any taxpayer can request for advance ruling when he is uncertain of the provisions. Advance tax ruling is applicable on –

(a) Classification of any goods and/or services under the Act

(b) Applicability of a notification which affects the rate of tax

(c) Determination of time and value of supply of goods/services

(d) Whether input tax credit paid (or deemed to be paid) will be allowed

(e) Determination of the liability to pay tax on any goods/services

(f) Whether the applicant has to be registered under GST

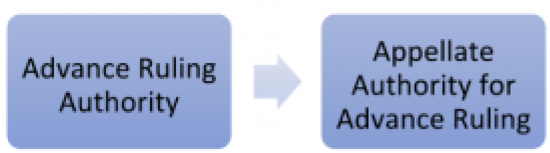
(g) Whether any particular thing done by the applicant regarding goods/services will result in a supply.

Procedure on receipt of application

On receipt of an application, a copy will be forwarded to the prescribed officer and he will furnish the necessary relevant records.

Process of Advance Ruling under GST

An advance ruling is first sent to Authority for Advance Ruling (Authority). Any person unhappy with the advance ruling can appeal to the Appellate Authority for Advance Ruling (Appellate Authority).



Process of Advance Ruling Under GST

Forms

Application for Advance ruling has to be made in FORM GST ARA-01 along with Rs. 5,000.

Decision of the Authority

The Authority can by order, either admit or reject the application.

Will all applications be allowed?

The Authority will NOT admit the application when-

(b) The same matter has already been decided in an earlier case for the applicant

(c) The same matter is already pending in any proceedings for the applicant

Basically, Advance Ruling will not be possible in any pending case or any decision already given.

Applications will be rejected only after giving an opportunity of being heard. Reasons for rejection shall be given in writing.

When will the authority give their decision?

Advance ruling decision will be given within 90 days from application.

If the members of the Authority differ in opinion on any point, they will refer the point to the Appellate Authority.

Advance Ruling will have prospective effect only.

On whom will the advance ruling apply?

The advance ruling will be binding only –

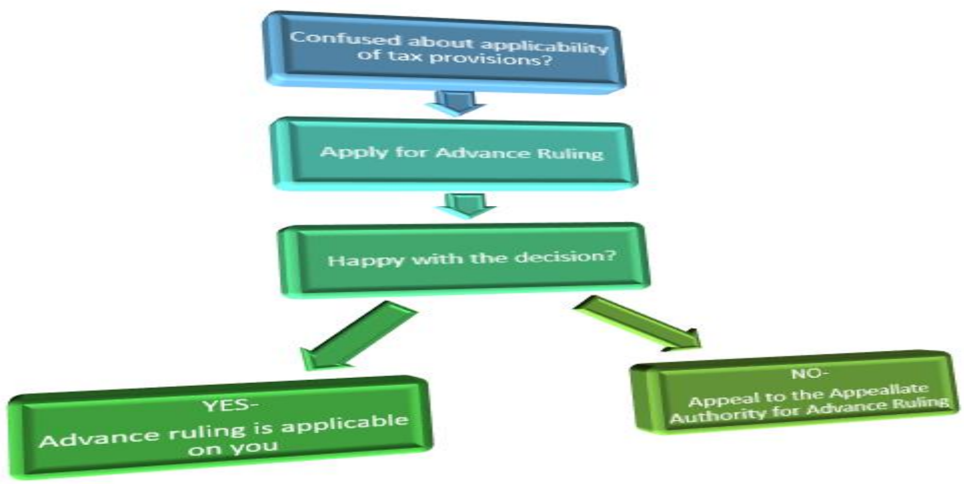
(a) On the applicant

(b) On the jurisdictional tax authorities in respect of the applicant.

If the law, facts of the original advance ruling change then the advance ruling will not apply.

Appeal to the Appellate Authority

If the applicant aggrieved by the advance ruling he can appeal to the



- **APPEALS AND REVISION:**

What is an appeal?

Any appeal under any law is an application to a higher court for a reversal of the decision of a lower court. Appeals arise when there are any legal disputes.

What are disputes?

Tax laws (or any law) impose obligations. Such obligations are broadly of two kinds: tax-related and procedure-related. The taxpayer’s compliance with these obligations is verified by the tax officer (through audit, anti-evasion, examining etc.). Sometimes there are situations of actual or perceived non-compliance. If the difference in views persists, it results into a dispute, which is then required to be resolved.

The initial resolution of this dispute is done by a departmental officer by a quasi-judicial process resulting into the issue of an initial order known by various names -assessment order, adjudication order, order-in-original, etc.

GST Act defines the phrase “adjudicating authority” as any authority competent to pass any order or decision under this Act, but does not include the Board, the First Appellate Authority and the Appellate Tribunal. Thus, in a way, any decision or order passed under the Act is an act of “adjudication”.
Some examples are:- cancellation of registration, best judgment assessment, decision on a refund claim, imposition of a penalty.

Steps of appeals under GST

Appeal level	**Orders passed by….**	**Appeal to ——-**	**Sections of Act**
1st	Adjudicating Authority	First Appellate Authority	107
2nd	First Appellate Authority	Appellate Tribunal	109,110
3rd	Appellate Tribunal	High Court	111-116
4th	High Court	Supreme Court	117-118

Should every appeal be made to both CGST & SGST authorities?
No. As per the GST Act, CGST & SGST/UTGST officers are both empowered to pass orders. As per the Act, an order passed under CGST will also be deemed to apply to SGST. However, if an officer under CGST has passed an order, any appeal/review/ revision/rectification against the order will lie only with the officers of CGST. Similarly, for SGST, for any order passed by the SGST officer the appeal/review/revision/rectification will lie with the proper officer of SGST only.

General rules for filing GST appeals
All appeals must be made in prescribed forms along with the required fees.
Fee will be-
–The full amount of tax, interest, fine, fee and penalty arising from the challenged order, as admitted by appellant, AND
–10% of the disputed amount
In cases where an officer or the Commissioner of GST is appealing then fees will not be applicable.

Can an authorized representative appear in court?
Yes. Any person required to appear before a GST Officer/First Appellate Authority/Appellate Tribunal can assign an authorized representative to appear on his behalf, unless he is required by the Act to appear personally.
An authorized representative can be-

1. a relative
2. a regular employee
3. a lawyer practising in any court in India
4. any chartered accountant/cost accountant/company secretary, with a valid certificate of practice

5. a retired officer of the Tax Department of any State Government or of the Excise Dept. whose rank was minimum Group-B gazetted officer.
6. any tax return preparer

Retired officers cannot appear in place of the concerned person within 1 year from the date of their retirement.

Appeal cannot be filed in certain cases

The Board or the State Government may, on the recommendation of the Council, fix monetary limits for appeals by the GST officer to regulate the filing of appeal and avoid unnecessary litigation expenses

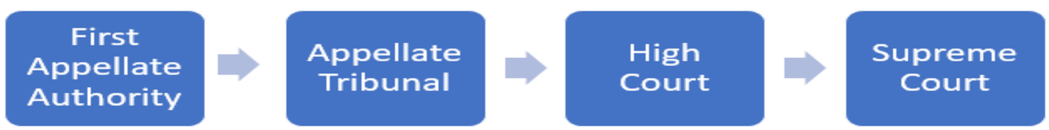
Can all decisions be appealed against?

No. Appeals cannot be made for the following decisions taken by a GST officer-

1. An order to transfer the proceedings from one officer to another officer
2. An order to seize or retain books of account and other documents; or
3. An order sanctioning prosecution under the Act; or
4. An order allowing payment of tax and other amount in installments

A person unhappy with any decision or order passed against him under GST by an adjudicating authority can appeal to the First Appellate Authority**.**

If they are not happy with the decision of the First Appellate Authority they can appeal to the National Appellate Tribunal, then to High Court and finally Supreme Court.



Steps of Appeals under GST

UNIT 4

- **AUDIT,**
- **OFFENCES AND PENALITIES,**
- **REFUNDS,**
- **ACTIVITIES OR TRANSACTIONS WHICH SHALL BE TREATED AS NEITHER SUPPLY OF GOODS NOR AS SUPPLY OF SERVICES,**
- **ROLE OF GST PRACTITIONER**

- **AUDIT:**

Audit under GST is the process of examination of records, returns and other documents maintained by a taxable person. The purpose is to verify the correctness of turnover declared, taxes paid, refund claimed and input tax credit availed, and to assess the compliance with the provisions of GST.

Threshold for Audit

Every registered taxable person whose turnover during a financial year exceeds the prescribed limit [as per the latest GST Rules, the turnover limit is above Rs 2 crore] shall get his accounts audited by a chartered accountant or a cost accountant. He shall electronically file:

1. an annual return using the Form GSTR 9 by 31st December of the next Financial Year* ,
2. the audited copy of the annual accounts,
3. a certified reconciliation statement in the form GSTR-9C, reconciling the value of supplies declared in the return with the audited annual financial statement,
4. and other particulars as prescribed.

Rectifications to Returns After GST Audit

If any taxable person, after furnishing a return discovers any omission/incorrect details (from results of audit), he can rectify **subject to payment of interest**. However, no rectification will be allowed after the due date for filing of return for the month of September or second quarter, (as the case may be), following the end of the financial year, or the actual date of filing o the relevant annual return, whichever is earlier.

For example, X found during the audit that he has made a mistake in Oct 2017 return. X submitted an annual return for FY 2017-18 on 31st August 2018 along with audited accounts. He can rectify the Oct 2017 mistake within-

20th Oct 2018 (last date for filing Sep return)

or

31st August 2018 (the actual date of filing of relevant annual return)

-earlier, ie., his last date for rectifying is 31st August 2018.

This rectification will not be allowed where results are from scrutiny/audit by the tax authorities.

Audit by Tax Authorities

- The Commissioner of CGST/SGST (or any officer authorized by him) may conduct an audit of a taxpayer. The frequency and manner of an audit will be prescribed later.
- A notice will be sent to the auditee at least 15 days before.

- The audit will be completed within 3 months from the date of commencement of the audit.
- The Commissioner can extend the audit period for a further six months with reasons recorded in writing.

Obligations of the Auditee

The taxable person will be required to:

1. provide the necessary facility to verify the books of account/other documents as required
2. to give information and assistance for timely completion of the audit.

Findings of Audit

On conclusion of an audit, the officer will inform the taxable person within 30 days of:

- the findings,
- their reasons, and
- the taxable person's rights and obligations

If the audit results in detection of unpaid/short paid tax or wrong refund or wrong input tax credit availed, then demand and recovery actions will be initiated.

Special Audit

When can a special audit be initiated?

The Assistant Commissioner may initiate the special audit, considering the nature and complexity of the case and interest of revenue. If he is of the opinion during any stage of scrutiny/ inquiry/investigation that the value has not been correctly declared or the wrong credit has been availed then special audit can be initiated.

A special audit can be conducted even if the taxpayer's books have already been audited before.

Who will order and conduct a special audit?

The Assistant Commissioner (with the prior approval of the Commissioner) can order for special audit (in writing). The special audit will be carried out by a chartered accountant or a cost accountant nominated by the Commissioner.

Time limit for special audit

The auditor will have to submit the report within 90 days. This may be further extended by the tax officer for 90 days on an application made by the taxable person or the auditor.

Cost

The expenses for examination and audit including the auditor's remuneration will be determined and paid by the Commissioner.

Findings of special audit

The taxable person will be given an opportunity of being heard in findings of the special audit. If the audit results in detection of unpaid/short paid tax or wrong refund or input tax credit wrongly availed then demand and recovery actions will be initiated.

- **OFFENCES AND PENALITIES:**

The GST Act, 2017 introduced a single tax regime across India while also providing the legal framework for ensuring that businesses large and small alike comply with requirements specified by the Act. As part of the legal framework for implementation of the GST Act, 21 separate offences have been listed and applicable penalties under GST Act have also been specified. In the following sections we will discuss the key GST penalties and offences as specified by the GST Act as well as the appeals process for contesting orders passed by an appellate authority

Offences under GST Act

The GST Act specifies 21 separate offences that can attract penalties under GST regime. There are of course offences that, though not part of the list, carry GST penalties that are decided on a case by case basis. The following is the list along with key details of these 21 GST offences:

GST Offences related to Invoicing and Documentation

- Issuing false/incorrect invoice or not issuing invoice for goods/services that have been supplied
- Issue of GST invoice without actual supply of goods/services
- Issue of invoice/document using GSTIN of a different GST registered person/entity
- Transport of taxable goods without adequate/correct documentation
- Failure to maintain relevant documents/records in line with requirements of the GST Act

GST Offences related to Fraudulent Intent

- Submission of false information at the time of GST registration or at a later date
- Obtaining GST refund by supplying fraudulent information
- Falsification of documents/records or providing false information with the intent of tax evasion
- Not registering under GST even though required to do so under GST Act
- Tampering with/disposing off goods that have been attached, seized or detained under GST Act.
- Knowingly supplying, transporting or storing any goods that are liable to be confiscated as per GST rules.

GST Offences related to Tax Evasion

- Under reporting/suppressing turnover resulting in tax evasion
- Failure to pay tax to the government within three months of due date after collecting the tax from receiver of goods/services
- Failure to pay tax to the government within three months of due date even though such tax has been collected in contravention of provisions specified by the GST Act
- Taking or utilizing Input Tax Credit (ITC) without actual receipt/supply of goods or services
- Failure to deduct tax, deducting tax amount less than the actual amount deducted or not paying the tax owed to the government (Tax liability under subsection 2 of Section 52 of GST Act)
- Failure to deduct tax, deducting tax amount less than the actual amount deducted or not paying the tax owed to the government (Tax liability under subsection 3 of Section 52 of GST Act)
- Taking/utilizing input tax credit in breach of Section 20 and its sub-sections under the GST Act

GST Offences related to Obstruction

-

- Obstructing/preventing any officer from discharging his/her duties as per the GST Act
- Destroying/tampering with documents or material evidence
- Providing false documents or failure to furnish documents/information demanded by an officer acting with authority provided by the GST Act

Minor Breach and Major Breach under GST Act

Under current rules regarding GST Penalties, a minor breach is defined as a situation where the amount of tax involved is less than Rs. 5,000. Additionally, a minor breach also includes easily rectifiable documentation errors/omission. Under existing rules, minor breaches do not attract substantial GST penalties and the tax authorities may only issue a warning without charging a monetary penalty if they so decide.

In case the tax amount involved exceeds Rs. 5,000, the situation is classified as a major breach under the GST Act and penalties under GST including jail sentences may be applicable depending on the tax amount consideration. The minor vs. major breach clause is designed to help businesses especially those with small turnovers including SME by ensuring that they do not get penalized for genuine errors.

GST Penalties under the GST Act

GST Penalties resulting from breach of the GST Act, 2017 are subject to fines depending on various factors including but not limited to the severity of the breach. The following are the applicable penalties under the act for some key offences*:

Type of GST Offence	Applicable GST Penalty Amount
Delayed filing of GST Returns	Rs. 200 per day (Rs. 100 per day under CGST and an additional Rs. 100 per day under SGST) up to a maximum of Rs. 5000. Late fee not applicable to IGST unpaid by delayed filing
Not filing GST Returns	Higher amount among – Rs. 10,000 or 10% of tax due under GST
Committing Fraud	Higher amount among – Rs. 10,000 or 100% of tax due under GST (may include jail term for fraud cases of higher value)
Aiding and Abetting Fraud	Rs. 25,000 irrespective of whether offender is GST registered or not
Charging wrong GST rates (higher rate than actual)	Higher amount among – Rs. 10,000 or 100% of the tax amount due (applicable only if excess tax is not submitted with the government)
Not issuing an invoice	Higher amount among – Rs. 10,000 or 100% of tax amount due
Not Registering Under GST (even though required to by law)	Higher amount among – Rs. 10,000 or 100% of tax amount due

Issuing incorrect invoice	Rs. 25,000

*The list is indicative and penalties are subject to periodic change.

From the above list, it is clear that GST penalties are higher in cases where fraudulent activities have been identified or proven and in such cases, the penalties are higher. Penalties under GST in such cases can be as high as 100% of the tax amount unpaid or a minimum penalty of Rs. 10,000. This penalty is of course in addition to the tax amount that had remained unpaid.

GST Penalties for High Value Frauds

High value frauds under the GST Act feature situations where the tax amount unpaid exceeds Rs. 100 lakhs or more. While the monetary penalty under GST is 10% of the tax amount unpaid (as this will be higher than Rs. 10,000), a jail sentence is also applicable in case of high value frauds. Following are the jail sentences as specified by the GST Act in addition to GST penalties:

- Jail term not exceeding 1 year if tax amount involved is between Rs. 100 lakhs to less than Rs. 200 lakhs.
- Jail term not exceeding 3 years if tax amount involved is between Rs.200 lakhs to less than Rs. 500 lakhs.
- Jail term not exceeding 5 years if tax amount involved is Rs. 500 lakhs or higher.

Penalty for Aiding and Abetting GST Fraud

If GST fraud is committed by a registered person/entity with the help from another person (whether registered or unregistered), penalty under GST is applicable to all parties considered. Currently this penalty under GST Act has been fixed at Rs. 25,000 irrespective of whether both parties are registered under GST or not. The following are some key actions that constitute as aiding and abetting GST fraud:

- Helping any GST registered entity/person commit fraud
- Acquisition/receipt of goods and/or service while knowing that it violates the GST Act
- Failure to substantiate/account for any invoice that appears on the books of the business
- Issuing invoices that are not in line with applicable GST rules
- Not appearing before tax authorities after receiving summons to attend a GST hearing

Offences without GST Penalties

In case of certain offences, there are no GST penalties applicable but these GST offences can incur interest at a specified rate (18% annually) on the amount of tax under consideration. The following are some key instances where no penalty under GST is applicable:

- No GST penalty is applicable for charging incorrect GST such as charging CGST/SGST instead of IGST. The registered business/entity has to pay the correct GST and get a refund for the wrong GST paid.
- No penalty under GST Act for incorrect filing of GST returns but interest at the rate of 18% p.a. is chargeable on the tax amount shortfall.

- No penalty is applicable for delayed invoice payments. But any input tax credit claimed in lieu of such invoices is liable to be reversed if invoice payment is delayed beyond 6 months.
- No penalty under GST Act for charging a wrong GST rate (lower than the actual rate) but the registered business/person is required to pay interest at 18% annually on the shortfall in tax amount.

Appeals Process under GST Act

In case a GST registered person/entity is unhappy with any GST penalties related order/decision passed by a tax authority/official acting as an adjudicating authority under the GST Act, there is an appeals process that has been specified. The appeals process under GST Act operates in the same manner irrespective of the type of offence or the GST penalties (monetary or otherwise) that is applicable in case of the specific offence. The following are the different levels of appeal available:

First Appellate Authority

The first appellate authority is the first court of appeal available to those seeking redress against an order passed by the adjudicating authority.

Appellate Tribunal

The GST appellate tribunal is a quasi-judicial body that was formed in order to mediate disputes and to hear appeals against orders of the first appellate authority.

Appeal to High Court

State level high courts are the next court of appeal for those contesting a verdict announced by the appellate tribunal.

Appeal to Supreme Court

India's apex court, the Supreme Court is the final court of appeal for contesting any GST penalties or other tax order. The judgement passed by the Supreme Court on any GST penalties, jail sentences or fines is final under existing GST rules.

REFUNDS:

1. What is GST refund?

Usually when the GST paid is more than the GST liability a situation of claiming GST refund arises. Under GST the process of claiming a refund is standardized to avoid confusion. The process is online and time limits have also been set for the same.

2. When can the refund be claimed?

There are many cases where refund can be claimed. Here are some of them –

Excess payment of tax is made due to mistake or omission.

- Dealer Exports (including deemed export) goods/services under claim of rebate or Refund
- ITC accumulation due to output being tax exempt or nil-rated
- Refund of tax paid on purchases made by Embassies or UN bodies
- Tax Refund for International Tourists

- Finalization of provisional assessment

3. How to calculate GST refund?
Let's take a simple case of excess tax payment made.
Mr. B's GST liability for the month of September is Rs 50000. But due to mistake, Mr. B made a GST payment of Rs 5 lakh.
Now Mr. B has made an excess GST payment of Rs 4.5 lakh which can be claimed as a refund by him. The time limit for claiming the refund is 2 years from the date of payment.

4. What is the time limit for claiming the refund?
The time limit for claiming a refund is 2 years from relevant date.
The relevant date is different in every case.
Here are the relevant dates for some cases –

Reason for claiming GST Refund	**Relevant Date**
Excess payment of GST	Date of payment
Export or deemed export of goods or services	Date of despatch/loading/passing the frontier
ITC accumulates as output is tax exempt or nil-rated	Last date of financial year to which the credit belongs
Finalisation of provisional assessment	Date on which tax is adjusted

Also if refund is paid with delay an interest of 24% p.a. is payable by the government.

5. How to claim GST refund?
The refund application has to be made in Form RFD 01 within 2 years from relevant date.
The form should also be certified by a Chartered Accountant.
You can file your returns very easily using ClearTax GST Software.

- **ROLE OF GST PRACTITIONER:**

Who is a GST Practitioner?
GST Practitioner is a kind of consultant who provides services to other taxpayers through online mode. A GST Practitioner must be registered on GSTN Portal and must have gained a certificate by going through an application procedure before he can start his or her practice.
Benefits of being a GST Practitioner:
Below are mentioned GST Practitioner Benefits. Once certified, a GST Practitioners can perform below mentioned activities on GSTN Portal-

• He can view complete list of taxpayers who are engaged in your account.
• He can furnish details of inward and outward supplies.
• He can furnish the monthly, quarterly, and annual return on behalf his taxpayer client.
• He can make a deposit for credit into the electronic cash ledger.
• He can file an application for his claim for refund.
• He can even file an application for amendments or cancellation of his registration.

• He is also enabled to make changes in the profile of his taxpayer client like place of his business, his contact details, his other business information. However, a GST practitioner can only save such information and cannot submit it. He must tell his client to submit the information as he has furnished it.

• He can also help his client to generate an e-waybill for various movement of his goods.
• He is also able to help his client in issuance of tax invoices, delivery challan, a procedure for GST registration, cancellation, and any GST Updates.
• He is enabled to accept or reject the application as a consultant from fellow taxpayer.

GST Practitioner Eligibility:

As per Rule 24 and 25 of Return Rules, have defined complete set of rules for eligibility conditions for GST practitioner qualification, his duties and obligations, and manner of his removal and other conditions of his functioning.

Prime criteria of eligibility for a GST Practitioner Qualification is as below-

• Primarily, he must be a citizen of India.
• He must possess a sound mind.
• He must be an individual who is not adjudged as insolvent.
• He must not have been convicted at any time by a competent court for any offense which may have resulted into his imprisonment for more than two years of period.

ther GST Practitioner qualification requirements are-

He must be a graduate or post graduate or must possess an equivalent degree in commerce, law, banking, business administration, business management for any recognized Indian University which is approved by law.

Or

He must possess an equivalent degree from a foreign university which is recognized by an Indian University.

He must also possess a clearance through an examination that have been conducted by the government of India through a recommended council.

He must also possess a degree from an Indian University or a Foreign University which is equivalent to degree examination, which may include one of below examinations-

1. Finals of Institute of Chartered Accountants of India
2. Finals of Institute of Cost Accountants of India
3. Finals of Institute of Company Secretaries of India.

FUNCTIONS PERFORMD BY GST PRACTITIONER:

As per rule 83(8) of CGST Rules, 2017, a GST practitioner can undertake any or all of the following activities on behalf of a registered person:

1 furnish details of outward and inward supplies
2 furnish monthly, quarterly, annual or final return
3 make deposit for credit into the electronic cash ledger
4 file a claim for refund5 file an application for amendment or cancellation o registration

However, it has been provided that a confirmation from a registered person shall be sought where an application relating to a claim for refund or an application for amendment or cancellation of registration has been submitted by the goods and services tax practitioner.

Rule 83 (10) of CGST Rules, 2017 provides that the GST practitioner shall prepare all ststements with due diligence and affix his digital signature on the statements prepared by him or electronically verify using his credentials.

The responsibility for correctness of any particulars furnished in the return or other details filed by the GST practitioners shall continue to rest with the registered person on whose behalf such return and details are furnish.

Any statement furnished by the GST practitioner shall be made available to the registered person on the GST common portal. For every statement furnished by the GST practitioner, a confirmation shall be sought from the registered person over email or SMS. The registered person before confirming should ensure that the facts mentioned in the return are true and correct before signature. However, failure to respond to request for confirmation shall be treated as deemed confirmation.

A GST practitioner shall also be allowed to appear as authorized representative before any officer of department, Appellate Authority or Appellate Tribunal, on behalf of such a registered person who has authorized him to be his GST practitioner.

TRANSACTIONS THAT ARE NEITHER SUPPLY OF GOODS NOR SUPPLY OF SERVICES:

The CGST Act in Schedule III lists activities or transactions which are neither supply of goods nor supply of services in the following manner:

(i) Services by an employee to the employer in the course of or in relation to his employment

(ii) Services by any Court or Tribunal established under any law for the time being in force

(iii) The functions performed by the Members of Parliament, Members of State Legislature, Members of Panchayats, Members of Municipalities and Members of other local authorities

(iv) The duties performed by any person who holds any post in pursuance of the provisions of the Constitution in that capacity

(v) The duties performed by any person as a Chairperson or a Member or a Director in a body established by the Central Government or a State Government or local authority and who is not deemed as an employee

(vi) Services by a foreign diplomatic mission located in India or any specialized agency of the United Nations Organization or any Multilateral Financial Institution notified under the United Nations (Privileges and Immunities) Act, 1947

(vii) Services of funeral, burial, crematorium or mortuary including transportation of the deceased

(viii) Sale of land and building (other than a building intended for sale to a buyer before issuance of completion certificate or first occupation thereof)

(ix) Actionable claims, other than lottery, betting and gambling

Their complete exclusion from ambit of ‘goods’ and ‘services’ provides the benefit that no tax credits are required to be reversed for any common inputs, input services or capital goods used in such supplies along with taxable supplies