



## **PERIYAR UNIVERSITY**

**Reaccredited by NAAC with 'A++' Grade-State University,  
Salem-636011, Tamil Nadu, India.**

### **CENTRE FOR DISTANCE AND ONLINE EDUCATION (CDOE)**

### **Master of Commerce-(M.COM)**

#### **SEMESTER II**

#### **CORE VI-SETTING UP OF BUSINESS ENTITIES**

#### **SELF-LEARNING MATERIAL**



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## UNIT I- SETTING UP OF BUSINESS ENTITIES

Types of business organisations -Factors governing selection of an organisation - Startups - Evolution - Definition of a Startup - Startup landscape in India - Startup India policy - Funding support and incentives - Indian states with Startup policies - Exemptions for startups - Life cycle of a Startup - Important points for Startups - Financing options available for Startups - Equity financing - Debt financing - Venture capital financing - IPO - Crowd funding - Incubators - Mudra banks -Successful Startups in India.

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## SECTION 1.1: STRATUPS IN INDIA

In this unit, aims to provide learners with a comprehensive understanding of the startup ecosystem in India. It covers the evolution and definition of startups, the landscape of startups in India, policy support, financing options, and examples of successful startups and learners to understand startup landscape and its financing, to analyse the formation and registration of Section 8 company, to outline the concept of LLP and business collaboration, to understand the procedure for obtaining registration and license, to create awareness about the legal compliances governing business entities.

### 1.1.1– Types of Business Organisations

Business organization refers to all necessary arrangements required to conduct a business in an optimized manner. It refers to all those steps that need to be undertaken for establishing and maintaining relationship between men, material, and machinery to carry on the business efficiently for earning profits. This may be called the process of planning and organizing which are the integral parts of the business management. The arrangement which follows this process of organizing the factors required for commencing and carrying on the business is called a business undertaking or organization.

#### 1. Sole Proprietorship

Sole proprietorship is a form of business, wherein one person owns all the assets of the business, no legal formalities are required to create a sole proprietorship other than an appropriate licensing to conduct a business and registration of business name if

it differs from that sole proprietorship. The owner reports income/loss from this business along with his personal income tax return.

## **2. Partnership Firm**

Partnership firms are created by drafting a partnership deed among the partners. The partnership deed is registered to make a firm. Partnership firms in India are, governed by the Indian Partnership Act, 1932.

Section 464 of the Companies Act, 2013 empowers the Central Government to prescribe maximum number of partners in a firm but the number of partners so prescribed cannot be more than 100.

The Central Government has prescribed maximum number of partners in a firm to be 50 vide Rule 10 of the Companies (Miscellaneous) Rules, 2014. Thus, in effect, a partnership firm cannot have more than 50 members .

## **3. Hindu Undivided Family (HUF)**

A Hindu family can come together and form a HUF. HUF is taxed separately from its members. One can save taxes by creating a family unit and pooling in assets to form a HUF. HUF has its own PAN and files tax returns independent of its members.

## **4. Limited Liability Partnership (LLP)**

Limited Liability Partnership is an alternate corporate business entity that provides the benefits of limited liability of a company but allows its members the flexibility of organizing their internal management on the basis of a mutually-arrived agreement, as is the case in a partnership firm, introduced in India by way of limited Liability Partnership Act, 2008.

## **5. Co-operative Society**

A cooperative organization is an association of persons, usually of limited means, who have voluntarily joined together to achieve a common economic end through the formation of a democratically controlled organization, making equitable distributions to

the capital required, and accepting a fair share of risk and benefits of the undertaking.

## 6. Section 8 Company

Section 8 company is a company established for promoting commerce, art, science, sports, education, research, social welfare, religion, charity, protection of environment or any such other object', provided the profits, if any, or other income is applied for promoting only the objects of the company and no dividend is paid to its members Section 8 Companies are registered under the Companies Act, 2013.

## 7. One Person Company

An OPC means a company with only 1 person as a member Share holder can make only 1 nominee, he shall become a shareholder in case of death / incapacity of original.

## 8. Private Company

Private company is a company which has the following characteristics:

- Shareholders right to transfer shares is restricted
- Minimum number of 2 members in company
- Number of shareholders is limited to 200
- An invitation to the public to subscribe to any shares or debentures or any type of security is prohibited.

## 9. Public Company

A public company is a company which has the following characteristics

- Shareholders right to transfer share; is not restricted
- Minimum 7 members
- An invitation to the public to subscribe to any shares or debentures or any type of security is permitted.

## Summary

Each type of business organization has its own set of characteristics, advantages, and disadvantages, and the best choice depends on factors like the size of the business, the level of risk involved, and the specific goals of the owners.

## LET'S SUM UP

Let's summarize the types of business organizations commonly seen in Indian startups. Selecting the right type of business organization is crucial for the success of a startup in India. It impacts legal liability, taxation, regulatory compliance, and the ability to raise capital. Entrepreneurs should carefully evaluate their business needs and long-term goals before choosing the appropriate structure.

## CHECK YOUR PROGRESS -QUIZ 1

### 1. What is a startup?

- a. An established company with a long history in the market
- b. **A newly established business in its early stages of development**
- c. A government-funded initiative
- d. A non-profit organization

### 2. What sets startups apart from established businesses?

- a) Limited potential for growth
- b) Lack of innovation
- c) **Early stage of development and high growth potential**
- d) Stable revenue streams

### 3. What is a key characteristic of startups in terms of innovation?

- a) They focus on tradition and well-established markets
- b) They implement proven business models
- c) **They introduce innovative ideas, products, or technologies**
- d) They avoid any risks associated with new ideas.

### 4. How do startups typically seek funding for their growth?

- a) By borrowing from banks

- b) By raising funds through initial public offerings (IPOs)
- c) Through venture capital firms, angel investors, or crowd funding platforms**
- d) By government grants only

**5. What is key challenge that startups often face due to their early stage of development?**

- a) High level of financial stability
- b) Established customer base
- c) High scalability potential
- d) Uncertainty and risk**

## **SECTION 1.2– FACTORS GOVERNING OF AN ORGANISATION**

### **1. Nature of Business Activity**

This is an important factor having a direct bearing on the choice of a form of ownership. In small trading businesses, professions, and rendering of personal services, sole- proprietorship is predominant.

Examples are Laundromats, beauty parlors, repair shops, consulting agencies, small retail stores, medicine stores, dentist, accounting concerns, boarding-house, restaurants, specialty shops, jobbing builders, painters, decorators, bakers, confectioners, tailoring shops, small scale shoe repairers and manufacturers, etc.

Similarly, the business lines such as carrying on large chain stores, multiple shops, super-bazaars, engineering industrial activities with high capital and working capital requirements and software industrial activities are generally in the form of companies.

### **2. Scale of Operations**

The second factor that affects the form of business organization is the scale of operations. If the scale of operations of business activities is small, sole proprietorship or a One Person Company (OPC) is suitable; If the scale of operations is modest - neither too small nor too large - partnership or limited liability partnership (LLP) is preferable; whereas, in case of large scale of operations, the company form is advantageous.

- (i) A micro enterprise, where the investment in plant and machinery or equipment does not exceed one crore rupees and turnover does not exceed five crore rupees; a small enterprise, where the investment in plant and machinery or equipment does not exceed ten crore rupees and turnover does not exceed fifty crore rupees; and
- (ii) A medium enterprise, where the investment in plant and machinery or equipment does not exceed fifty crore rupees and turnover does not exceed two hundred and fifty crore rupees.

The scale of business operations depends upon the size of the market area served, which, in turn, depends upon the size of demand for goods and services. If the market area is small, local - sole-proprietorship, OPC or partnership is opted. If the demand originates from a large area- partnership including LLP or Company may be adopted.

### **3. Capital Requirements**

Capital is one of the most crucial factors affecting the choice of a particular form of ownership organization. Requirement of capital is closely related to the type of business and scale of operations. Enterprises requiring heavy investment (like iron and steel plants, large scale infrastructure projects etc.) should be organized as companies. Depending on the capital required, they can be set up as public companies and, in some cases, may be in the form of listed companies by raising money from the public and being listed on the stock exchanges.

### **4. Managerial Ability**

It is difficult for a sole proprietor to have expertise in all functional areas of business. Further, the size of the business may not permit engagement of professional management. In other forms of organizations like partnership and company, there is division of work among the partners which allows the partners to specialize in specific areas, leading to better outputs and decision making. However, this may sometimes lead to conflicts due to differences of opinion. Company form of organization is a better alternative if the operations are far flung, complex in nature and require professional

management at various levels.

The degree of control and management that an entrepreneur desires to have over business affects the choice of form of organization.

partnership: management and control of business is jointly shared by the partners and their specific rights, duties and responsibilities would be documented through incorporating various clauses in this regard in the partnership deed. They have equal voice in the management of partnership business except where they agree to divide among themselves the business responsibilities in a different manner. Even then, they are legally accountable to each other. In a company: however, there is divergence between ownership and management, the management and control of the company business is entrusted to the Board, who are generally the elected representatives of shareholders.

## **5. Degree of Risk and Liability**

The size of risk and the willingness of owners to bear it, is an important consideration in the selection of a form of business organization. The amount of risk involved in a business depends, among other factors like, on the nature and size of business. Smaller the size of business, smaller the amount of risk.

## **6. Stability of Business**

Stability of business is another factor that governs the choice of an ownership organization. A stable business is preferred by the owners in so far as it helps him in attracting suppliers of capital who look for safety of investment and regular return, and also helps in getting competent workers and managers who look for security of service and opportunities of advancement. From this point of view, sole proprietorships are not stable, although no time limit is placed on them by law. Flexibility of Administration

As far as possible, the form of organization chosen should allow flexibility of administration. The flexibility of administration is closely related to the internal organization of a business, i.e., the manner in which organizational activities are structured into departments, sections, and units with a clear definition of authority and responsibility. The internal functioning of a sole proprietary business, for instance, is

very simple, and therefore, any change in its administration can be affected with least inconvenience and loss. To the large extent, the case is the same in a partnership business also.

## **7. Division of Profit**

Profit is the guiding force of private business and it has a tremendous influence on the selection of a particular form of business organization. An entrepreneur desiring to pocket all the profits of business will naturally prefer sole proprietorship of course, in sole proprietorship, the personal liability is also unlimited.

## **8. Costs, Procedure and Government Regulation**

This is also an important factor that should be taken into account while choosing a particular form of organization. Different forms of organization involve different procedure for establishment and are governed by different laws which affect the immediate and long-term functioning of a business enterprise. From this point of view, sole proprietorships are the easiest and cheapest to get started. There is no one specific government regulation. but is guided by various state and central laws to give a valid proof of existence e.g. - Shops and Establishment Act. What is necessary is the technical competence and the business acumen of the owner and the requirement of meeting tax liabilities.

## **9. Tax Implication**

In the choice of the form of business organization, tax implication plays an important factor. In smaller entities, such as sole proprietorship or partnership, tax liability is dependent on the extent of profits. However, the liability of the owner(s) is unlimited. case of companies or LLPs the liability of shareholders is limited to the value of shares they have purchased. In case of companies or LLPs, tax liability could be higher.

## **10. Geographical Mobility**

The extent to which the product or service is proposed to be manufactured or made

available also plays a vital role in choosing the type of business organization. If a concern deals with local market, a seasonal product or perishable goods, or is meant to cater to a specific city or locality, then sole proprietorship or partnership form of business may be suitable. If it is proposed to market the product or service all over India (which may also entail providing customer support services), a company form of organization may be preferred.

## **11. Transferability of Ownership**

Sole proprietorship, being a one-person entity does not lend itself to transferability of ownership as the owner himself enjoys the profits and suffers the losses in his business. Partnership form of organization is one where two or more partners share the profits and/or losses in the agreed proportion. If a partner exits, the partnership, may decide to induct a new partner with benefits of ownership and share of profits or losses. In the company form of organization, transfer of ownership is possible by transfer of shareholding by any person or group of persons in favor of another person or group of persons.

## **12. Managerial Needs**

Managerial and administrative requirements also affect the decision about the form of organization. When the concern is small and it caters to local needs only then one person will be enough to manage the business. Sole- proprietorship form of organization will be suitable for such a business. If business caters to more areas, then more persons will be needed to look after various business functions in various areas. When a business is run on a large - scale basis, it will require the services of specialists to manage various departments. The company form of organization will be suitable for such concerns.

## **13. Secrecy**

Secrecy is of supreme importance, particularly in small business concerns. Accordingly, the entrepreneur would select the sole proprietorship for that reason. In case, he has partners, he will have to carefully weigh whether other partners will be able to maintain the secrecy. He will have to exercise great care in taking partners.

In case of a company, secrecy may be restricted to the manufacturing process or the manner in which business is conducted. However, certain aspects of their business such as their board of directors, shareholding, financial statements and other information which are statutorily required to be placed in public domain are accessible to any person.

## 14. Independence

The Company is subject to strict government regulations. So, if the entrepreneur wants to have a freedom in business with little governmental interference, he has to go for either sole proprietorship or partnership.

### 1.2.1– Startups

A startup company (startup or start-up) is an entrepreneurial venture which is typically an emerging, fast- growing business that aims to solve an unmet need by developing a viable business model around an innovative product, service, process or a platform. A startup is usually a company designed to effectively develop and validate a scalable business model.

Start-ups may have high rates of failure, but the minority of successes includes companies that have become large and influential.

### 1.2.2–Evolution

Startup companies can come in all forms and sizes. Some of the critical tasks are to build a co-founding team to secure key or complementary skills, know-how, financial resources, and other elements to build the product for the target market.

Typically, a startup will begin by building a first minimum viable product (MVP), a prototype, to validate, assess and develop the new ideas or business concepts. In addition, startups founders do research to deepen their understanding of the ideas technologies or business concepts and their commercial potential.

A Founders' agreement are often agreed early on to confirm the commitment, ownership and contributions of the founders and to deal with the intellectual

properties and assets that may be generated by the startup. A Shareholders' Agreement (SHA) is entered into between the founders and investors to confirm investment terms, rights of investors, exit clauses and any other important agreement terms.

Business models for startups are generally found via a —bottom-up or —top-down approach. A company may cease to be a startup as it passes various mile stones, such as becoming publicly traded on the stock market in an Initial Public Offering (IPO), or ceasing to exist as an independent entity via a merger or acquisition. Companies may also fail and cease to operate altogether, an outcome that is very likely for startups, given that they are developing disruptive innovations which may not function as expected and for which there may not be market demand, even when the product or service is finally developed. Given that startups operate in high-risk sectors, it can also be hard to attract investors to support the product/ service development or attract buyers.

A number of organisations and/or organised activities exist with Startup activities. To name a few, Universities, Advisory and mentoring organizations Startup incubators, Startup accelerators, Co working spaces, Service providers (Consulting, Accounting, Legal, etc.), Event organizers, Start-up competitions, Startup Business Model Evaluators, Business Angel Networks, Venture capital companies, Equity Crowd funding portals, corporate (telcos, banking, health, food, etc.), other funding providers (loans, grants etc.), Start-up blogs and social networks and other facilitators.

Investors from these roles are linked together through shared events, activities, locations and interactions. Startup ecosystems generally encompass the network of interactions among people, organizations, and their environment. Any particular start-up ecosystem is defined by its collection of specific cities or online communities. In addition, resources like skills, time and money are also essential components of a start-up ecosystem. The resources that flow through ecosystems are obtained primarily from the meetings between people and organizations that are an active part of those startup ecosystems. These interactions help to create new

potential startups and/or to strengthen the already existing ones.

### 1.2.2–DEFINITION OF A STARTUP

Definition of Start-Up —Start Up as defined vide Notification No. G.S.R. 127 (E), dated 19th February 2019 by DPIIT as:

An entity shall be considered as a Startup:

1. Up to a period of ten years from the date of incorporation/ registration, if it is incorporated as a private limited company (as defined in the Companies Act, 2013) or registered as a partnership firm (registered under section 59 of the Partnership Act, 1932) or a limited liability partnership (under the Limited Liability Partnership Act, 2008) in India.
2. Turnover of the entity for any of the financial years since incorporation/ registration has not exceeded Rs 100 crore.
3. Entity is working towards innovation, development or improvement of products or processes or services, or if it is a scalable business model with a high potential of employment generation or wealth creation.

Provided that an entity formed by splitting up or reconstruction of an existing business shall not be considered a Startup.

### Summary

Factors governing an organization encompass various internal and external elements that influence its operations and success. Here's a summary of the key factors:

1. **Legal and Regulatory Environment:** Organizations must comply with laws and regulations, including labor laws, environmental regulations, and industry standards, which can affect their operations and strategic decisions.
2. **Economic Conditions:** The state of the economy, including factors like inflation, unemployment, and economic growth, impacts organizational performance and strategic planning.
3. **Market Conditions:** This includes the level of competition, market demand, and consumer preferences, which influence product development, pricing strategies, and marketing approaches.

4. **Technology:** Technological advancements can drive innovation, improve efficiency, and create new opportunities, but organizations must also adapt to technological changes to stay competitive.
5. **Organizational Culture and Structure:** The internal culture, including values, beliefs, and norms, as well as the organizational structure, affects employee behavior, communication, and overall effectiveness.

## Let's Sum Up

Understanding the definition and characteristics of startups, the factors governing organizational success, and the evolutionary stages of startups is crucial for entrepreneurs and stakeholders. Each stage of a startup's evolution requires different strategies and resources, and being aware of these can help navigate the challenges and opportunities that arise.

## CHECK YOUR PROGRESS - QUIZ-2

1. **What is primary focus of startups in terms of growth?**
  - a. Expanding to new markets
  - b. Establishing a monopoly in the industry
  - c. Minimizing risks
  - d. **Rapidly increasing market share**
2. **Which type of investors typically invest in startups in exchange for equality or ownership stake?**
  - a. Traditional banks
  - b. Family and friends only
  - c. **Venture capital forms and angel investors**
  - d. Government agencies
3. **What is the main goal of startups in the early stages of development?**
  - a. Maximizing profits and dividends
  - b. Establishing a long- standing presence in the market
  - c. Achieving sustainability and stability
  - d. **Validating the business model and gaining traction**

4. Which term refers to startups that aim to disrupt traditional industries or business models?
  - a. Conservative startups
  - b. Established startups
  - c. Legacy startups
  - d. **Disruptive startups**
5. How do startups typically differentiate themselves from competitors in the market?
  - a. By offering lower prices and discounts
  - b. By using traditional marketing channels
  - c. **By providing innovative and unique value propositions**
  - d. By imitating the business models of successful companies.

## SECTION 1.3–STARTUP LANDSCAPE IN INDIA

Here are some important points to consider for startups:

### 1. Clear Value Proposition

Clearly define the problem your product or service solves. Articulate a compelling value proposition that differentiates your startup from Competitors.

### 2. Market Research:

- Conduct thorough market research to understand your target audience, competition, and industry trends.
- Identify and analyze your potential customers' needs and preferences.

### 3. Solid Business Plan:

- Develop a comprehensive business plan that outlines your mission, vision, and business model.
- Include financial projections, marketing strategies, and operational plans in your business plan.

#### **4. Legal Structure and Compliance:**

- Choose an appropriate legal structure for your startup (e.g., LLC, corporation) and register the business.
- Ensure compliance with local, state, and national regulations.

#### **5. Financial Management:**

- Establish a robust financial management system to track expenses, revenue, and cash flow.
- Seek professional advice for financial planning and taxation.

#### **6. Customer-Centric Approach:**

- Prioritize customer feedback and continuously iterate your product or service based on customer needs.
- Build strong relationships with customers to foster loyalty and positive word-of-mouth.

#### **7. Effective Marketing:**

- Develop a strong online presence through a website and social media.
- Implement effective marketing strategies to create brand awareness and attract customers.

#### **8. Team Building:**

- Assemble a skilled and motivated team with diverse talents.
- Foster a positive and collaborative work culture to encourage creativity and innovation.

#### **9. Adaptability and Agility:**

- Be ready to adapt to changing market conditions and pivot your business model if necessary.
- Stay agile in responding to feedback, trends, and emerging opportunities.

## 2. **Strategic Partnerships:**

- Explore strategic partnerships that can enhance your startup's capabilities and reach.
- Collaborate with other businesses, organizations, or influencers that align with your goals.

## 3. **Technology Integration:**

- Leverage technology to streamline operations and improve efficiency.
- Stay abreast of technological trends that could impact your industry.

## 4. **Investor Relations:**

- Develop a compelling pitch for potential investors.
- Maintain transparent communication with investors and provide regular updates on your startup's progress.

## 5. **Risk Management:**

- Identify potential risks and develop strategies to mitigate them.
- Be prepared for unforeseen challenges and have contingency plans in place.

## 6. **Focus on Metrics:**

- Monitor key performance indicators (KPIs) relevant to your business.
- Use data and analytics to make informed decisions and track your startup's performance.

## 7. **Ethical Practices:**

- Establish a strong ethical framework for your startup's operations. Prioritize integrity and ethical business practices to build trust with customers and stakeholders.

### 1.3.1–Startup India Policy

The —Startup India initiative announced by the Hon'ble Prime Minister on 15.08.2015 aims at fostering entrepreneurship and promoting innovation by creating an ecosystem that is conducive to growth of Startup. Startup India is a flagship initiative of the Government of India, intended to build a strong ecosystem for nurturing innovation and Startups in the country that will drive sustainable economic growth and generate large scale employment opportunities.

The efforts of the government are aimed at empowering Startups to grow through innovation and design. It is intended to provide the much needed impetus for the Startups to launch and scale greater heights. In order to meet the objectives of the initiative, the Hon'ble Prime Minister on 16th January 2016 launched the Startup India Action Plan.

A startup is a small or medium company of recent creation, bounded in time, and usually related to the world of technology. A startup is the part of an innovative business idea and with the knowledge of one or more partners, usually few, to try to climb this small idea in to a profitable business. Since, the launch of Startup India initiative, a total of 44,534 Startups has been recognized by DPIIT as on 24th February 2021.

### 1.3.2–Funding Support and Incentives

#### a) Fund of Funds

For providing fund support for Startups, Government has created a Funds for Startups (FFS) at Small Industries Development Bank of India (SIDBI) with a corpus of Rs 10,000 crore. The FFS shall contribute to the corpus of Alternative Investment Funds (AIFs) for investing in equity and equity linked instruments of various Startups. The FFS is managed by Small Industries Development Bank of India (SIDBI) for which operational guidelines have been issued. Prime Minister Narendra Modi Modi's ambitious Rs 10,000-crore Fund of Funds for Startups (FFS) under the Startup India initiative, launched in January 2016, has enabled Rs 5,089.55 crore funding into 391 government-recognised startups as of January 31, 2021, according to the data from the Commerce Ministry.

**b) Startup India Seed**

Fund Government has launched a Startup India Seed Fund worth INR 1000 crore to help startups and support ideas from aspiring entrepreneurs.

**c) Credit Guarantee Fund for Startups**

Since debt funding for Startups is perceived as high-risk activity, a Credit Guarantee Fund for Startups is being setup with a budgetary corpus of Rs.500 crore per year, over the next four years, to provide credit guarantee cover to banks and lending institutions providing loans to Startups.

Once rolled out, the scheme in the lines of credit guarantee scheme for MSME, is likely to provide a huge impetus for enabling flow of much needed credit to the Startups which may run into several thousands of crores.

**d) Relaxed Norms in Public Procurement for Startups**

Provision has been introduced in the procurement policy of Ministry of Micro, Small and Medium Enterprises (Policy Circular No. 1(2)(1)/2016-MA dated March 10, 2016) to relax norms pertaining to prior experience/ turnover for Micro and Small Enterprises. Department of Expenditure has issued a notification for relaxing public procurement norms in respect of all Startups (including medium enterprises) by all central Ministries/ Departments.

**e) Tax Incentives****(i) Income Tax Exemption on profits under Section 80-IAC of Income Tax (IT) Act.**

The Inter-Ministerial Board of Certification is a Board set up by Department for Promotion of Industry and Internal Trade (DPIIT) which validates Startups for granting tax related benefits. A DPIIT recognized Startup is eligible to apply to the Inter-Ministerial Board for a deduction of an amount equal to 100% of the profits and gains derived from an eligible business by an eligible startup for 3 consecutive assessment years out of 10 years beginning from the year in which the eligible start-up is incorporated.

**(ii) Tax Exemption on Investments above Fair Market Value.**

- DPIIT Recognized Startups are exempt from tax under Section 56(2) (vii b) of the Income Tax Act when such a Startup receives any consideration for issue of shares which exceeds the Fair Market Value of such shares.
- The startup has to file a duly signed declaration in Form 2 to DPIIT {as per notification G.S.R. 127 (E)} to claim the exemption from the provisions of Section 56(2) (vii b) of the Income Tax Act.

**(iii) Introduction of Section 54EE in the Income Tax Act, 1961.**

Exemption from tax on long-term capital gain if such long-term capital gain is invested in a fund notified by Central Government. The maximum amount that can be invested is Rs.50 lakh

**2. Legal Support and Fast-tracking**

Patent Examination at Lower Costs A scheme for Startups IPR Protection (SIPP) for facilitating fast track filing of Patents, Trademarks and Designs by Startups has been introduced. The scheme provides for expedited examination of patents filed by Startups. This will reduce the time taken in getting patents. The fee for filing of patents for Startups has also been reduced up to 80%. Panels of facilitators for Patents and Trademark applications have been formed to facilitate the process of patent filing and acquisition. The facilitators would provide legal guidance and handholding through the entire patent acquisition process free of cost.

**3. Self-Certification based Compliance Regime:**

Compliance norms relating to Environmental and Labour laws have been eased in order to reduce the regulatory burden on Startups thereby allowing them to focus on their core business and keep compliance costs low.

**4. Setting up Incubators**

Incubators are organisations set-up with the specific goal of assisting entrepreneurs with building and launching their startups. Not only do incubators offer a high number of

value added services (office space, utilities, admin & legal assistance,

## **5. Setting up of Startup Centres and Technology Business Incubators (TBIs)**

Startup Centres and Technology Business incubators are to be set up collaboratively by Ministry of Human Resource Development (MHRD) and the Department of Science and Technology (DST). Out of the 14 Startup Centres, 10 have been approved. Once MHRD releases its share of Rs.25 lakhs each for the Startup centres, the Startup centres would be supported by DST by December, 2016.

### **1.3.3- Indian States with Startup policies**

States have a vital role to play in promoting the Startup ecosystem. One of the core strengths of India lies in its diversity, leading to enormous opportunities for cross-learning from each other. Only four State Governments were actively supporting Startups before the launch of Startup India through a State Startup policy. The Startup movement across the country was fragmented and there was a need for consolidating standalone efforts. Emphasis was also required simultaneously to encourage more and more States to take new initiatives. The national priority initiative has led to a wide spread movement across the country and presently 22 States have their own Startup policies. Many other States and Union Territories (UTs) are in the process of drafting their policies and operating guidelines. The core functioning of an enabling ecosystem in a State is a function of the policy framework and effective implementation of the same. In the journey of developing a conducive Startup community, it is important that States and UTs exchange and adopt good practices undertaken by each other.

Another important role of State is to reduce the regulatory burden on budding Startup founders by simplifying labour, taxation, land, and other laws and regulations under the State purview. Many States are organizing hackathons, boot camps, pitching sessions to promote Startups. Several other States have already begun to actively setup world class incubators for Startups across various sectors. However, a significant effort is required to accelerate the pace of these initiatives to be at par with the pace of growth of Startups. Concerted initiatives by States will accelerate the growth of Startup

ecosystems in their respective territories and transform the country into a flourishing Startup Nation.

### 1.3.4-Exemptions for Startups

To promote growth and help Indian economy, many benefits are being given to entrepreneurs establishing startups.

- **Simple process-** Government of India has launched a mobile app and a website for easy registration for startups. Anyone interested in setting up a startup can fill up a simple form on the website and upload certain documents. The entire process is completely online.
- **Reduction in cost-** The government also provides lists of facilitators of patents and trademarks. They will provide high quality Intellectual Property Right Services including fast examination of patents at lower fees. The government will bear all facilitator fees and the startup will bear only the statutory fees. They will enjoy 80%reduction in cost of filing patents.
- **Easy access to Funds-** A10, 000crore rupees fund is set-up by government to provide funds to the startups as venture capital. The government is also giving guarantee to the lenders to encourage banks and other financial institutions for providing venture capital.
- **Tax holiday for 3 Years** - Startups will be exempted from income tax for 3 years provided they get a certification from Inter-Ministerial Board (IMB).
- **Apply for tenders** - Startups can apply for government tenders. They are exempted from the —prior experience/turnover criteria applicable for normal companies answering to government tenders.
- **R&D facilities** - Seven new Research Parks will be set up to provide facilities to startups in the R&D sector.
- **No time-consuming compliances** - Various compliances have been simplified for startups to save time and money. Startups shall be allowed to self-certify

compliance (through the Startup mobile app) with 9 labour and 3 environment laws.

- **Tax saving for investors** - People investing their capital gains in the venture funds setup by government will get exemption from capital gains. This will help startups to attract more investors.
- **Choose your investor**- The startups will have an option to choose between the VCs, giving them the liberty to choose their investors.
- **Easy exit** - In case of exit, a startup can close its business within 90 days from the date of application of winding up
- **Meet other entrepreneurs** -Government has proposed to hold 2 startup fests annually both nationally and internationally to enable the various stakeholders of a startup to meet. This will provide huge networking opportunities.

### 1.3.5-Life Cycle of a Startup

The lifecycle of startup typically consists of several stages, each with its own challenges, milestones, and characteristics. Here is a general overview of the typical stages in the life cycle of a startup:

#### **Idea Generation:**

This is the starting point where entrepreneurs come up with innovative ideas or solutions to address a particular problem or need.

#### **Market Research:**

Entrepreneurs conduct market research to validate their ideas, understand the target audience, and assess the feasibility of their business concept.

#### **Planning and Development:**

A detailed business plan is created, outlining the startup's mission, vision, target market, competition analysis, and operational strategy. If applicable, a prototype or minimum viable product (MVP) may be developed.

**Formation:**

The startup is legally established, and the founding team may seek funding from personal savings, family, friends, or angel investors to get the business off the ground.

**Launch:**

The product or service is officially launched in the market. This stage involves marketing and promotion efforts to attract customers and gain initial traction.

**Early Growth:**

The startup begins to see increased customer adoption and may iterate its product or service based on early feedback. This phase often involves refining business processes and scaling operations.

**Scaling:**

With proven market demand, the startup focuses on scaling its operations, expanding its customer base, and possibly entering new markets. This stage often requires additional funding to support growth.

**Maturity:**

The startup achieves a stable and mature state where it has a well-established customer base and a sustainable business model. Operations are optimized, and the focus may shift to diversification and innovation to stay competitive.

**Exit or Sustainability:**

Depending on the goals of the founders and investors, the startup may exit through an acquisition, merger, or initial public offering (IPO). Alternatively, the startup may choose to sustain its operations independently.

**Pivot or Closure:**

If the initial business model proves unsustainable or if market conditions change significantly, the startup may need to pivot its strategy or, in some cases, cease operations.

### 1.3.6 IMPORTANT POINTS FOR STARTUPS

The term "startup" is commonly associated with technology companies, but it can apply to businesses in various industries. The startup phase is usually characterized by the search for a sustainable and scalable business model, overcoming challenges, and establishing a strong market presence. As startups evolve and grow, they may eventually transition into more established and mature companies.

As of my last knowledge update in January 2022, India has been experiencing a vibrant and dynamic startup landscape. Please note that the information may have evolved since then, and it's advisable to check for the latest developments. Here are some key aspects of the startup ecosystem in India:

- a) **Government Initiatives:** The Indian government has been actively supporting and promoting entrepreneurship through various initiatives such as "Startup India." These initiatives aim to provide a conducive environment for startups, offering tax benefits, funding support, and simplifying regulatory processes.
- b) **Growth in Funding:** India has witnessed a significant increase in funding for startups. Venture capital firms, angel investors, and corporate investments have contributed to the growth of the ecosystem. Cities like Bengaluru, Mumbai, and Delhi-NCR are major hubs for startup activities.
- c) **Diversity of Sectors:** While technology and e-commerce startups have been prominent, there has been diversification across various sectors, including healthcare, fin tech, Ed tech, agri tech, and more. This diversification indicates a maturing and well-rounded startup ecosystem.
- d) **Unicorn Companies:** India has produced several "unicorn" startups, referring to privately held startups with a valuation of over \$1 billion. These unicorns span various industries, showcasing the diversity and potential of the Indian startup ecosystem.
- e) **Digital Transformation:** The increasing penetration of the internet and smart phones has fueled the growth of startups leveraging technology for digital solutions. This includes e-commerce platforms, online education, digital payments, and health tech services.

- f) **Global Recognition:** Indian startups have gained recognition on the global stage, attracting international investments and partnerships. The ability to provide cost-effective solutions and the availability of a large consumer market contribute to this global appeal.
- g) **Innovation and Entrepreneurship:** India has seen a surge in innovation and entrepreneurial spirit, with a growing number of individuals choosing to start their own ventures. Incubators, accelerators, and startup events contribute to fostering this culture.

## LET'S SUM UP

Let's summarize the startup landscape in India, including policies, funding support and incentives, state-specific startup policies, exemptions, and the life cycle of a startup. The Indian startup ecosystem is robust and rapidly evolving, supported by favorable government policies, funding opportunities, and incentives. With a strong focus on innovation and scalability, startups in India are well-positioned to make significant impacts across various sectors. Understanding the startup lifecycle and leveraging state-specific policies and exemptions can help entrepreneurs navigate the challenges and maximize growth opportunities.

## Summary

The startup landscape in India is vibrant and rapidly evolving, characterized by several key aspects:

1. **Growing Ecosystem:** India has a burgeoning startup ecosystem with a significant number of new ventures emerging across various sectors, including technology, fintech, health tech, and e-commerce.
2. **Investment Climate:** There is robust investment activity, with venture capitalists, angel investors, and institutional funds actively funding startups. The government's push for a "Startup India" initiative has further stimulated investment.
3. **Government Support:** The Indian government offers various incentives and support programs for startups, including tax benefits, funding schemes, and regulatory easing under initiatives like "Startup India" and "Make in India."

4. **Talent Pool:** India has a large and growing pool of skilled professionals, including engineers, developers, and entrepreneurs, which fuels the startup sector's growth. However, talent retention and skill gaps remain challenges.
5. **Technological Innovation:** Startups in India are leveraging technology to innovate and address local and global market needs. Trends include advancements in artificial intelligence, blockchain, and digital transformation.

### Check Your Progress-QUIZ-1

1. Which stage of a startup's development involves the initial development and launch of the product or services?
  - a. **Seed stage**
  - b. Growth stage
  - c. Maturity stage
  - d. Introduction stage
2. What is the main source of funding for startups during the seed stage?
  - a. Venture capital firms
  - b. **Angel investors**
  - c. Government grants
  - d. Revenue generated from sales
3. What is the primary focus of startups in the growth stage?
  - a. Attracting seed funding
  - b. Establishing a monopoly in the market
  - c. **Scaling their operations and increasing market share**
  - d. Planning for exit strategies
4. What is the common challenge that startups face during the growth stage?
  - a. Finding potential competitors to collaborate with
  - b. Dealing with decreased customer demand
  - c. **Maintaining a strong company culture during expansion**
  - d. Avoiding any changes to the business model

**5. What is the purpose of the “exit strategy” in startups?**

- a. To keep the startup running indefinitely
- b. To find potential competitors to collaborate with
- c. To identify ways to achieve long-term success
- d. To plan how the founders and investors will eventually monetize their investment.**

**SECTION- 1.4 FINANCING OPTIONS AVAILABLE FOR STARTUP**

Finance is the life blood of any business. In case the venture is self-funded there can be no better option than that. However, a Startup is mostly the result of a novel idea that is the brainchild of its founder(s) and more often than not, funds are always a challenge

Funding asserts its importance for operative processes, research, development and multiple other primary business features for evolving businesses. However, it is the foremost consideration when contemplating growth and development of startups. Funding can be derived sources, it can help sustain the existing projects and enable expansion.

**1. Business Loan**

Business term loan refers to the lump sum fund that small business or start-up owners can borrow from financial institutions to back their day-to-day operations. It is one of the popular debt financing options that comes with fixed repayment tenure at interest rates higher than secured loans such as a loan against property.

**2. Personal Loan**

Another effective way start-up sectors can gain substantial financial backup is by applying for a personal loan. It is a versatile credit option that will allow businesses to use the sanctioned amount for any purposes (like for expanding business premises, equipment and inventory purchase etc). However, to qualify for this credit choice, borrowers must possess a considerably high credit score.

**3. Business Credit Card**

A business credit card just like a personal credit card can be used by business owners to make business purchases. It is considered ideal for regulating cash flow, spreading costs and keeping a record of business expenses.

#### **4. Crowd funding**

Crowd funding refers to the process of raising funds via many potential investors through a credible crowd funding website. It is one of the cost-effective ways of raising capital where multiple individuals collectively fund a new business initiative. Crowd-funding platforms enable start-ups to collect small investments from different investors rather than relying on one investment source.

#### **5. Factoring**

Factoring is another means of start-up financing where business entities sell their account receivables to a commercial finance firm at a concession with the perspective to boost their working capital and ensure better cash flow. This factoring process lowers the expenses of a business body that is generally linked to credit verifications, book keeping, etc.

#### **6. Reaching to Friends and Family**

Start-ups can find it difficult to gather funds in the initial days. At that time it can be easy to opt for financing from friends and family members. Borrowing from them can result in a much more affordable interest rate. It will help in lowering the debt level and ensure more funds to back business operations.

#### **7. Angel Investing**

Angel investors are private investors who are willing to extend capital to small businesses to help them get off the ground. In this, the investors extend the fund in return for a stake. However, firms are liable to pay a portion of their profits to angel investors. They also reserve the right to monitor and supervise the management practices of a firm. It is through networking you can come across angel investors.

#### **8. Government Grants and Subsidies**

Entrepreneurs can seek different government grants and subsidies to back business operations. Grants are extended to different demographics or industries. It can also be designed for especially women-owned startups. Business owners must abide by the varied terms of the grant to make the most of it. They must also be aware of the eligibility norms to qualify for government subsidies.

## 9. Vendor Financing

As the name suggests, vendor financing refers to the process by which vendors/material suppliers lend money to businesses. The fund is then used by the business to purchase products or services from the same vendor. So, there's no need to make the payment of raw material immediately in this type of start-up financing, the credit period can extend up to 30 days, 45 days or even 60 days.

### SEED CAPITAL

Startup business needs the nurturing of finance to explore and grow. The funding done at the nascent stage is called seed funding and the capital is known as a seed capital. Technically, seed capital is the initial capital used at the time of starting the business. This capital can come from the founders, families or friends. It is required for the market research, product development, and other initial stage operations. Seed funding permits exploration of the business idea and converting it into a viable product or service that further attracts venture capitalists. A business founder must be clear on how to utilise seed capital in the most optimum manner to ensure smooth transition to the advanced stage of the business. Seed funding is a risky investment option, as most funding agencies would like to adopt a wait and watch approach to see whether the idea has a business potential. From the founder's point of view, the option of obtaining seed funding has to be carefully utilised as obtaining seed funding may result in dilution of ownership of the founder.

Financing is generally of two types i.e. (a) equity financing or (b) debt-financing.

**A. Equity Financing** Startups are usually equity financed/funded by way of a venture capital/ private equity investors and/or angel investors.

#### **(i) Venture Capitalist/Private Equity**

Venture capital (—VC ) / Private Equity (—PE ) is often the first large investment a startup can expect to receive. Convertible instruments are usually the preferred option and most commonly used securities for VC/PE investment which includes compulsory convertible preference shares and compulsory convertible debentures. The investor and startup will normally enter into a non-binding offer based on the preliminary valuation of the

startup usually followed with a financial, legal and technical due diligence on the startup as required by the investors. Due-diligence will help the investors to finalize the representation and warranties and also to identify conditions precedent to the completion of investments and conditions subsequent in the aforesaid transaction documents.

Upon completion of due-diligence to the satisfaction of investor, such investments involve execution of essentially following transaction documents between the investors and startups:

### **Funding Procedure**

- (a) Term Sheet / Letter of Intent /Memorandum of understanding is entered into, setting out the following
- (b) basic commercial understanding between the VC and the startup; and
- (c) legal terms for the agreements to follow the due-diligence

### **(ii) Angel Investors**

Angel investors are usually individuals or a group of industry professionals who are willing to fund the venture in return for an equity stake. Under the SEBI (Alternative Investment Funds) Regulations, 2012 which was subsequently amended in 2013, SEBI has made the following restrictions applicable to angel funds investing in an Indian company:

(1) Angel funds shall invest in venture capital undertakings which:

- (a) complies with the criteria regarding the age of the venture capital undertaking/startup

issued by the Department of Industrial Policy and Promotion under the Ministry of Commerce and Industry, Government of India vide notification no. G.S.R. 180(E) dated February 17, 2016 or such other policy made in this regard which may be in force;

- (b) Have a turnover of less than Rs.25 Crore;

(c) Are not promoted or sponsored by or related to an industrial group whose group turnover exceeds Rs.300 crore; and

(d) Are not companies with family connection with any of the angel investors who are investing in the company.

(2) Investment by an angel fund in any venture capital undertaking shall not be less than Rs.25 Lakhs and shall not exceed Rs.10 Crores.

(3) Investment by an angel fund in the venture capital undertaking shall be locked-in for a period of one year.

### **(iii) Bridge Round**

### **(iv) Series Funding After**

Seed Funding Round or Angel Funding Round and Bridge Funding Round, Series Funding Round will start like Series A to Z. Series preferred stock is the first round of stock offered during the seed or early stage round by a portfolio company to the venture capital investor. Series preferred stock is often convertible into common stock in certain cases such as an Initial public offering (IPO) or the sale of the company.

Series rounds are traditionally a critical stage in the funding of new companies. A typical series A round is in the range of \$2 million to \$10 million, purchasing 10% to 30% of the company. The capital raised during a series round is usually intended to capitalize the company for 6 months to 2 years as it develops its products, performs initial marketing and branding, hires its initial employees, and otherwise undertakes early stage business operations.

## **B. Debt Financing**

### **i. Loan from Banks & NBFCs**

Loans from banks and NBFCs help finance the purchase of inventory and equipment, besides securing operating capital and funds for expansion. More importantly, unlike a VC or angels, which have an equity stake, banks do not seek ownership in your venture. However, there are several drawbacks of such funding option. Not only do you pay interest on loan but it also has to be done on time irrespective of how your

business is faring. They require substantial collateral and a good track record, besides the fulfillment of other terms and conditions and a lot of documentation as follows:

- Application for loan sanction by borrowers;
- Issue of sanction letter by the Bank;
- Agreement of Loan;
- Security/collateral documentation, such as

## **ii. External Commercial Borrowings External Commercial Borrowings (ECB)**

in form of bank loans, buyers' credit, suppliers' credit, securitized instruments (e.g. non- convertible, optionally convertible or partially convertible preference shares, floating rate notes and fixed rate bonds) can also be availed from non-resident lenders to fund the business requirement of a company. ECB can be accessed under two routes, viz., (i) Automatic Route; and (ii) Approval Route depending upon the category of eligible borrower and recognized lender, amount of ECB availed, average maturity period and other applicable factors.

## **iii. CGTMSE Loans**

Under the Credit Guarantee Trust for Micro and Small Enterprises scheme launched by Ministry of Micro, Small & Medium Enterprises (MSME), Government of India to encourage entrepreneurs, one can get loans of up to 1 crore without collateral or surety. Any new and existing micro and small enterprise can take the loan under the scheme from all scheduled commercial banks and specified Regional Rural Banks, NSIC, NEDFi, and SIDBI, which have signed an agreement with the Credit Guarantee Trust.

## **C. Initial Public Offering (IPO) to raise the funds or increase the magnitude of the business operations**

During the IPO, the Company raises funds by offering and issuing equity shares to the public. An IPO allows a company to tap a wide pool of stock market investors to provide it with large volumes of capital for future growth. The existing shareholding will get diluted as a proportion of the company's shares. However, existing

capital investment will make the existing shareholdings more valuable in absolute terms.

Companies can also issue of American Depository Receipts (—ADRs ) or Global Depository Receipts (—GDRs ) to raise funds from international stock investors. The promoter has certain obligations such as (a) meeting minimum contribution requirements; and (b) is generally subject to a 3 year lock-in once the IPO is concluded.

Various parties such as investment bankers, underwriters and lawyers need to be engaged as part of the procedure of IPO.

**D. Unconventional modes of financing options which are now becoming popular in India**

### **i. Crowd Funding**

This is recent phenomena being practiced for getting seed funding through small amounts collected from a large number of people (crowd), usually through the Internet. Now we have companies existing in India which are specializing in —Crowd Funding .

The entrepreneur can get money for his venture by showcasing his idea before a large group of people and trying to convince people of its utility and success

The entrepreneur needs to put up on a portal his profile and presentation, which should include the business idea, its impact, and the rewards and returns for investors. It should be supported by suitable images and videos of the project.

SEBI in 2014, even rolled out a Consultation Paper on Crowd funding in India' proposing a framework in the form of Crowd funding to allow startups and SMEs to raise early stage capital in relatively small sums from a broad investor base. The Consultation Paper defined Crowd funding as solicitation of funds (small amount) from multiple investors through a web-based platform or social networking site for a specific project, business venture or social cause. However SEBI not issued any further regulations in this regard.

## ii. Incubators

These set-ups precede the seed funding stage and help the entrepreneur develop a business idea or make a prototype by providing resources and services in exchange for an equity stake ranging from 2-10%. Incubators offer office space, administrative support, legal compliances, management training, mentoring and access to industry experts as well as to funding through angel investors or VCs. These are usually government-supported institutes like the IIMs or IITs, technical institutes or private business incubators run by industry veterans or companies. The incubation period can be 2-3 years and admission is rigorous. Some of the top options in India include IIM-Bangalore NSRCEL, Microsoft Accelerator and IIT- Kanpur, SIIC and the Sriram College of Commerce (SRCC).

### 1.4.1 Mudra Banks

Micro Units Development and Refinance Agency Bank (or MUDRA Bank) is a public sector financial institution in India. It provides loans at low rates to micro-finance institutions and non-banking financial institutions which then provide credit to MSMEs. It was launched by Prime Minister Narendra Modi on 8 April 2015.

It will provide its services to small entrepreneurs outside the service area of regular banks, by using last mile agents. About 5.77crore (57.6million) small business have been identified as target clients using the NSSO survey of 2013. Only 4% of these businesses get finance from regular banks.

The bank will classify its clients into three categories and the maximum allowed loan sums will be based on the category: Allowed loans up to Rs.50,000 (US\$780) Kishore: Allowed loans up to Rs.5 lakh (US\$7,800) Tarun: Allowed loans up to Rs.10 lakh (US\$16,000) Those eligible to borrow from MUDRA bank are:

- ❖ Small manufacturing unit
- ❖ Shopkeepers
- ❖ Fruit and vegetable vendors
- ❖ Artisans

The basic criteria of age should be 18 years old. Loan under the scheme of

the Pradhan Mantri Mudra Bank Loan will be available if and only if it is for commercial and business purposes and not for personal purposes. At the most, borrower can buy vehicle from mudra loan, given that it is used for commercial purposes. Lastly, this loan is for new business and is only applicable for small business owners

### **Procedure for loan**

Once the beneficiary identifies an idea and comes up with a business plan, he is supposed to select the business category under which he wishes to avail the loan

The beneficiary can contact the nearest Public/ Private sector bank where he/she can apply for business under PMMY. The list of institutions partnering in the MUDRA initiative is available on the MUDRA portal.

An application form under this scheme will be available with each of the above listed institutions. This application form has to be submitted along with the following documents for the approval of the loan:

Proof of Identity (Self attested Voter ID/Driving License/PAN Card/ Aadhaar Card/Passport/any other Photo ID issued by Government)

Proof of Residence (Recent Telephone Bill/Electricity Bill/Property Tax Receipt (not older than 2 months)/ Voter ID Card/Aadhaar Card/Passport/Domicile Certificate/Certificate Issued by a local authority)

- Applicant's recent photograph (not older than 6 months)
- Quotation of Machinery/other items to be purchases
- Name of the Supplier/Details of Machinery/Price of Machinery
- Proof of Identity/Address of the Business Enterprise (relevant licenses & certificates)
- Proof of Category (SC/ST/OBC/Minority etc.)

Apart from the above mentioned documents, individual banks could ask for other documents as needed. The Banks are not supposed to take any processing fee and are not supposed to ask for any collateral. The repayment period is also extended to 5 years. But it is also made clear that the applicant should not be a defaulter to any

Bank or financial institution. 240 Lesson 9 • EP-SBEC

MUDRA Bank is not a separate bank (like SBI etc). It is a government financing scheme to provide business loan to new small businesses in India. To get business loan under PPMY the candidate has to contact the nearest Public/ Private sector bank. MUDRA will be operating as a refinancing institution through State / Regional level intermediaries.

MUDRA's delivery channel is conceived to be through the route of refinance primarily to NBFCs / MFIs, besides other intermediaries including Banks, Primary Lending Institutions etc. The rate of interest will be fixed by the institutions time to time based on guidelines from the RBI.

Mudra loan is extended for a variety of purposes which result in income generation and employment creation. The loans are extended mainly for:

- i. Business loan for Vendors, Traders, Shopkeepers and other Service Sector activities
- ii. Working capital loan through MUDRA Cards
- iii. Equipment Finance for Micro Units
- iv. Transport Vehicle loans - for commercial use only
- v. Loans for agri-allied non-farm income generating activities, e.g. pisciculture. bee keeping, poultry farming, etc.
- vi. Tractors, tillers as well as two wheelers used for commercial purposes only.

### **1) Transport Vehicle**

Purchase of transport vehicles for transportation of goods and passengers such as auto rickshaws, small goods transport vehicles, 3 wheelers, e-rickshaws, taxis, etc. Tractors/Tractor Trolleys/Power Tillers used only for commercial purposes are also eligible for assistance under PMMY. Two Wheelers used for commercial purposes are also eligible for coverage under PMMY.

### **2) Community, Social & Personal Service Activities**

Salons, beauty parlours, gymnasium, boutiques, tailoring shops, dry cleaning, cycle

and motorcycle repair shops, DTP and Photocopying Facilities, Medicine Shops, Courier Agents, etc.

### **3) Food Products Sector**

Activities such as papad making, achar making, jam/jelly making, agricultural produce preservation at rural level, sweet shops, small service food stalls and day to day catering / canteen services, cold chain vehicles, cold storages, ice making units, ice cream making units, biscuit, bread and bun making, etc.

### **4) Textile Products Sector / Activity**

Handloom, powerloom, khadi activity, chikan work, zari and zardozi work, traditional embroidery and hand work, traditional dyeing and printing, apparel design, knitting, cotton ginning, computerized embroidery, stitching and other textile non garment products such as bags, vehicle accessories, furnishing accessories, etc.

### **5) Business loans for Traders and Shopkeepers**

Financial support for on lending to individuals for running their shops / trading & business activities / service enterprises and non-farm income generating activities with beneficiary loan size of up to 10 lakh per enterprise / borrower.

### **6) Equipment Finance Scheme for Micro Units**

Setting up micro enterprises by purchasing necessary machinery / equipments with per beneficiary loan size of upto 10 lakh.

### **7) Activities allied to agriculture**

Activities allied to agriculture<sup>4</sup>, e.g. pisciculture, bee keeping, poultry, livestock-rearing, grading, sorting, aggregation agro industries, diary, fishery, agri-clinics and agribusiness centres, food & agro-processing, etc. (excluding crop loans, land improvement such as canal, irrigation and wells) and services supporting these, which promote livelihood or are income generating shall be eligible for coverage under PMMY in 2016-17.

## MUDRA Card

MUDRA Card is a debit card issued against the MUDRA loan account, for working capital portion of the loan. The borrower can make use of MUDRA Card in multiple drawals and credits, so as to manage the working capital limit in cost-efficient manner and keep the interest burden minimum. MUDRA Card also helps in digitalization of MUDRA transactions and creating credit history for the borrower. MUDRA Card can be operated across the country for withdrawal of cash from any ATM / micro ATM and also make payment through any Point of Sale machines.

## SUMMARY

The Micro Units Development and Refinance Agency (MUDRA) Bank is an initiative by the Government of India aimed at providing financial support to micro, small, and medium enterprises (MSMEs), particularly those in the informal sector.

## LET'S SUM UP

Choosing the right financing option is crucial for the success and growth of a startup. Each financing method has its advantages and disadvantages, and the best choice depends on the startup's stage, industry, and specific needs. Equity capital, venture capital, and angel investors offer significant funds and mentorship but require giving up some ownership. Debt financing retains ownership but adds repayment obligations. Mudra banks provide accessible financing for small and micro-enterprises with favorable terms. Entrepreneurs should carefully assess their requirements and consider a mix of these options to optimize their funding strategy.

## CHECK YOUR PROGRESS - QUIZ - 1

### 1 What is Startup?

- a. An established company with a long history in the market.

- b. A newly established business in its early stages of development
- c. A government - funded initiative
- d. A non- profit organization

**2 What sets startups apart from established business?**

- a) Limited potential for growth
- b) Lack of innovation
- c) Early stage of development and high growth potential
- d) Stable revenue streams

**3 What is the key characteristic of startups in terms of innovation?**

- a) They focus on traditional and well-established markets.
- b) They implement proven business models
- c) They introduce innovative ideas, products, or technologies
- d) They avoid any risks associated with new ideas.

**4 How do startups typically seek funding for their growth?**

- a) By borrowing from banks
- b) By raising funds through initial public offerings (IPOs)
- c) Through venture capital firms, angel investors, or crowd funding platforms.
- d) By government grants only

**5 What is the primary focus of startups in terms of growth?**

- a) Expanding to new markets
- b) Establishing a monopoly in the industry
- c) Minimizing risks
- d) Rapidly increasing market share

## 1.5 UNIT SUMMARY

Here's a comprehensive summary unit covering all the requested topics related to startups and business organizations in India. Understanding the various

aspects of starting and growing a business in India is crucial for entrepreneurs. From selecting the right type of business organization to navigating the startup landscape, leveraging government policies, funding options, and exemptions can significantly influence the success of a startup. Entrepreneurs should focus on innovation, scalability, and strategic planning while utilizing available resources and support systems to maximize their potential.

## 1.6- GLOSSARY

Sole Proprietorship	A business owned and managed by a single individual with full control and unlimited liability.
Partnership Firm	A business owned by two or more individuals sharing profits and liabilities.
Limited Liability Partnership (LLP)	A partnership where partners have limited liability, combining elements of a partnership and a corporation.
Non-Profit Organizations	Companies established for charitable purposes, enjoying tax benefits and limited liability.
(Section 8 Company) Definition	8 A newly established business venture focused on solving a problem or meeting a market need through innovative products/services with potential for rapid growth

## 1.7 SELF-ASSESSMENT QUESTIONS

### Short Answers

Sl.no	Questions
1	What are the types of Business organisation?
2	What is the meaning of Start-ups?
3	Explain the evolution of start-up in India.
4	Define start-up.
5	Explain IPO

## Essay Type Answers

### Sl.No Questions

- 1 What the factors selection of an organisation?
- 2 Explain the life cycle of start up.
- 3 What are the financing options available for start-ups?
- 4 Explain Mudra banks.
- 5 What are the successful start-ups in India?

## 1.8 ACTIVITIES - ASSIGNMENT

- 1 XYZ Tech Solutions is a startup founded by three engineers in Bangalore, India. They have developed innovative AI-based software that automates customer service for e-commerce businesses. The startup is in its early stage, having completed its seed funding round, and is now looking to scale its operations.
- 2 Discuss the most suitable type of business organization for XYZ Tech Solutions and explain why it would be the best choice.
- 3 Identify and elaborate on the factors XYZ Tech Solutions should consider while selecting the type of business organization.
- 4 Select one state other than Karnataka with a notable startup policy.
- 5 Create a detailed flowchart showing each stage in the life cycle of XYZ Tech Solutions.
- 6 Select two successful Indian startups (e.g., Flipkart, BYJU'S).

## UNIT II- NOT-FOR-PROFIT ORGANISATIONS

Formation and registration of NGOs - Section 8 Company - Definition - Features - Exemptions - Requirements of Section 8 Company - Application for incorporation - Trusts - Objectives of a trust - Persons who can create a trust - Differences between a public and private trust - Exemptions available to trusts - Formation of a trust - Trust deed - Society - Advantages - Disadvantages - Formation of a society - Tax exemption to NGOs.

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## UNIT OBJECTIVES

Not-for-profit organizations (NFPs) serve various objectives that differentiate them from for-profit entities. Here are some primary objectives of not-for-profit organizations:

1. **Social Impact:** The core objective is to address social, cultural, educational, or environmental issues. NFPs often aim to improve communities and provide services or support to underserved or vulnerable populations.
2. **Advocacy and Awareness:** Many NFPs focus on advocating for specific causes or raising awareness about critical issues. This could include advocating for policy changes, educating the public, or raising consciousness about particular problems.
3. **Community Service:** NFPs frequently work to deliver essential services to communities, such as food banks, shelters, health services, or educational programs. Their goal is often to fill gaps left by the public or private sectors.
4. **Supporting Research and Development:** Some NFPs are dedicated to funding or conducting research in various fields, including medicine, education, or social sciences. Their aim is to advance knowledge and find solutions to complex problems.
5. **Promoting Education and Training:** Many NFPs focus on providing educational opportunities and vocational training to individuals who might not otherwise have access. This can include scholarships, educational programs, and skill development initiatives.

## SECTION 2.1: NOT- FOR- PROFIT ORGANISATIONS INTRODUCTION

In this unit aims to provide learners with a detailed understanding of not-for-profit organizations (NGOs) in India, including their formation, legal structure, registration processes, and the tax exemptions available. The focus will be on Section 8 Companies, Trusts, and Societies. The learners should be able to:

1. Understand the different legal structures available for forming NGOs in India.
2. Explain the specific characteristics, advantages, and regulatory requirements of Section 8 Companies.
3. Describe the formation process and objectives of trusts, and distinguish between public and private trusts.

4. Identify the key elements of a trust deed and understand its legal importance.
5. Evaluate the pros and cons of forming a society and understand the registration process under the Societies Registration Act.
6. Recognize the tax exemptions available to various types of NGOs and the compliance necessary to obtain and maintain these benefits.

### **2.1.1- FORMATION AND REGISTRATION OF NGOS**

A company incorporated under Section 8 of the Companies Act, 2013 (corresponding to Section 25 of the Companies Act, 1956) Company incorporated for promoting commerce, art, science, sports, education, research, social welfare, religion, charity, protection of environment or any such other object, provided the profits, if any, or other income is applied for promoting only the objects of the company. Such a company is a non-profit body and is akin to a NGO. In some respects, they are similar to a Trust or Society, except that such companies are incorporated under the Companies Act, whereas a Trust or Society is registered under the regulations of the respective State Government where it is located.

### **2.1.2 Section 8 Company**

A company incorporated under Section 8 of the Companies Act, 2013 (corresponding to Section 25 of the Companies Act, 1956) Company incorporated for promoting commerce, art, science, sports, education, research, social welfare, religion, charity, protection of environment or any such other object, provided the profits, if any, or other income is applied for promoting only the objects of the company. Such a company is a non-profit body and is akin to a NGO. In some respects, they are similar to a Trust or Society, except that such companies are incorporated under the Companies Act, whereas a Trust or Society is registered under the regulations of the respective State Government where it is located.

### **Section 8 of the Companies Act, 2013 reads as under**

Section 8 of the Companies Act, 2013, governs the formation and regulation of not-for-profit companies in India. Here's a detailed look at Section 8:

## SECTION 8 - FORMATION OF COMPANIES WITH CHARITABLE OBJECTS

### 1. Formation of Companies:

- ❖ **Objective:** Section 8 permits the formation of companies that are established for promoting commerce, art, science, religion, charity, or any other useful object.
- ❖ **Non-Profit Nature:** These companies must apply their profits, if any, towards the promotion of these objectives and should not distribute profits to their members.

### 2. Application for License:

- ❖ **Requirement:** To be registered under Section 8, a company must apply for a license from the Central Government.
- ❖ **Documents:** The application must be accompanied by a memorandum of association and articles of association that reflect the company's commitment to charitable purposes.

### 3. Grant of License:

- ❖ **Government Approval:** The Central Government, upon being satisfied that the company's objectives are genuinely for public benefit and not for profit, grants a license for the company to be registered under Section 8.
- ❖ **Conditions:** The license will be subject to the conditions prescribed by the government.

### 4. Registration and Compliance:

- ❖ **Company Registration:** After obtaining the license, the company can be registered under Section 8. It must comply with the provisions of the Companies Act, 2013, as well as any conditions attached to the license.
- ❖ **Change of Objects:** Any change in the objectives of the company must be approved by the Central Government. The revised objectives must continue to align with charitable purposes.

### 5. Financial Reporting and Audit:

- ❖ **Accounts:** Section 8 companies are required to maintain proper books of accounts.
- ❖ **Audit:** They must have their accounts audited in accordance with the Companies Act, 2013.
- ❖ **Non-Distribution of Profits:** The financial statements must reflect that the company is not distributing profits to its members and is adhering to its charitable objectives.

### 6. Winding Up:

- ❖ **Surplus Assets:** On winding up, any surplus assets remaining after settling liabilities must be transferred to another company or institution with similar charitable objectives. This is typically done under the direction of a court or tribunal overseeing the winding-up process.

### 7. Exemptions:

- ❖ **Certain Provisions:** Section 8 companies are exempt from some provisions of the Companies Act that apply to for-profit entities, particularly regarding the distribution of profits.

## 2.1.3- Features of a Section 8 Company

Certain features of a Section 8 company can be summarized as under:

1. It is formed for promoting commerce, art, science, sports, education, research, social welfare, religion, charity, protection of environment or any such other object.
2. The profits, if any, are applied in promoting its objects;
3. It prohibits the payment of dividends to its members.
4. The name of the Company can be incorporated without using the word Limited or Private Limited as the case may be.
5. There is no requirement of any minimum paid up capital.
6. It is exempted from stamp duty registration.
7. Many privileges and exemptions are available to such a company. Section 8 companies have been granted total/partial exemptions from various sections of the Companies Act, 2013 vide Notification No. F. No. 1/2/2014-CL.I dated June 5, 2015.
8. A One Person Company cannot function as a Section 8 Company.
9. Section 8 company has its independent corporate legal entity, similar to private

company, public company or a Limited Liability Partnership and hence enjoys credibility in the eyes of the public.

#### **2.1.4. - Exemptions available to Section 8 Company**

By Notification No. F. No. 1/2/2014-CL. I dated June 5, 2015, the Central Government has granted various exemptions, either in full or in part from the provisions of the Companies Act, 2013. The key exemptions are summarized below:

(a) Company Secretaries no longer mandatory Section 8 companies are no longer required to appoint a company secretary to ensure compliance with the provisions of the Companies Act 2013. This exemption will result in cost reduction for the section 8 companies.

(b) No need for minimum share capital In line with the relaxation announced for private limited companies, section 8 companies too are no longer required to maintain a minimum share capital.

(c) Shorter notice period for AGMs By amendment to section 101, it is proposed that only 14 days' notice shall be required to convene an annual general meeting of a section 8 company. This is in contrast to the earlier limit of 21 days. Provisions which pertain to sharing of financials and other associated documents before the meetings have also been amended to reflect such new timelines.

(d) No necessity to record minutes of meetings, unless required, etc. Section 118 which requires recording of minutes of proceedings of general meetings, board meetings and other resolutions including those passed by way of postal ballot, shall now no longer apply to nonprofit enterprises. However, the minutes of meetings may be recorded within 30 days of conclusion of the meeting in cases where the company's articles provide for confirmation by way of circulation of minutes.

(e) Dispatch of financial statements and other documents {Section 136(1)} Instead of twenty-one days prescribed under the section, Section 8 companies are allowed to dispatch the said documents not less than fourteen days before the date of the meeting.

(f) Only two directors required Section 149(1) shall no longer apply to section 8

companies; implying that such companies shall not be required to have a minimum number of directors on its board. However, quorum for board meetings has been fixed at 2.

(g) Independent Directors not required Clauses requiring and governing appointment of independent directors have been waived and section 8 company is not required to appoint independent directors.

(h) Exemption regarding first meeting and board meetings Further, section 8 companies shall no longer be required to hold the first meeting of the board within 30 days of incorporation of the company. A meeting of the directors shall however still be required once every six months.

(i) Right of persons other than retiring directors to stand for directorship (Section 160) This right shall no longer be enforceable in section 8 companies, similar to an exemption provided to private Lesson 7 n Formation and Registration of NGO'S 169 limited companies. However, this exemption shall not apply to companies whose articles provide for election of directors by ballot.

(j) Directorship in more than 20 companies the bar on taking up directorship in more than twenty companies (section 165) has been relaxed in the case of section 8 companies. Therefore, an individual, if he is eligible, can be a director in more than 20 section 8 companies.

(k) Meetings of the Board (section 173) The Board of Directors of a section 8 company may hold at least one meeting within every six calendar months.

(l) Relaxation in formation of certain Committees referred to in Section 178 of the Act Section 8 companies shall not be required to form the Nomination and Remuneration Committee and the Stakeholders Relationship Committee as provided in Section 178 of the Act, as the section has been exempted from compliance for such companies.

(m) Certain decisions by circulation instead of at a meeting By modification to Section 179, the board has been empowered to take decisions pertaining to borrowing, investments and granting of loans and advances by way of circulation as compared to

taking such decisions by calling a meeting of the board.

(n) Disclosure of interest in related party transactions in some cases only {section 184(2) and section 189} A director shall be required to disclose his interest in any firm with which the company is making a transactions, and the company shall be required to maintain a register of all such transactions in which its director are interested only and only if with reference to section 188 (related party transactions) , the contract or arrangement exceeds one lakh rupees in value.

## LET'S SUM UP

A Section 8 Company in India is a specific type of NGO established with the purpose of promoting charitable activities without the intention of distributing profits. It enjoys several legal and financial benefits, and its formation requires adherence to specific steps and regulatory compliance as per the Companies Act, 2013.

## CHECK YOUR PROGRESS - QUIZ - 1

### 1. Investors in a corporation are called:

- a. Managers
- b. Promoters
- c. Partners
- d. **Shareholders**

### 2. A corporation or Joint - stock company must function through:

- a. Promoters
- b. **Directors**
- c. Managing agents
- d. Underwriters

### 3. The company formed by the special Act of legislatures of parliament is known as

- a. Public company
- b. Registered company
- c. **Statutory company**
- d. Chartered company

**4. A private company cannot**

- a. issue shares
- b. Invite public to subscribe shares**
- c. Be a manufacturing company
- d. be a limited company

**5. Which of the following statement is false:**

- a. A company is a legal entity quite distinct from its members.
- b. A company can buy its own share
- c. A shareholder is the agent of the company**
- d. Same person can agent and creditor of the company

## SECTION 2.2- TRUST

A Trust is a relationship in which a person or entity holds a valid legal title to a certain property which is known as the Trust property. The Trust is bound by a fiduciary duty to exercise that legal title for the benefit of any one or more individuals or group of individuals or organisations, who are known as the Beneficiaries. The Trust shall be governed by the terms of the Written Trust agreement.

Trust is defined in section 3 of the Indian Trust Act, 1882 as —an obligation annexed to the ownership of property and arising out of a confidence reposed in and accepted by the owner, or declared and accepted by him, for the benefit of another or of another and the owner. In other words, it is simply a transfer of property by one person (the settlor) to another (the —trustee) who manages that property for the benefit of someone else (the —beneficiary ). The settlor must legally transfer ownership of the assets to the trustee of the trust.

The statutory basis governing Trusts, in general, under Indian law is the Indian Trusts Act, 1882. Generally, there are two types of trusts in India: private trusts and public trusts. Private trusts are regulated by the Indian Trusts Act, 1882, whereas Public trusts are classified as Charitable and religious trusts. The Charitable and Religious Trust Act, 1920, the Religious Endowments Act, 1863, the Charitable Endowments Act, 1890, the Societies Registration Act, 1860, and the Bombay Public Trust Act, 1950 are the relevant legislations for the recognition and

enforceability of public trusts.

### 2.2.1. Persons who can create a Trust

According to Section 7 of Indian Trusts Act, 1882, a trust may be created by the following persons:

#### Persons who can be a Trustee

As per Section 10, any person who is capable of holding property may be a trustee; except to the condition of discretion of trust, in that case, he cannot execute it unless she is competent to contract.

### 2.2.2 - Difference between Public Trust and Private Trust

- (a) Identification of the beneficiaries of the Trust is a simple way to differentiate between a public and a private trust. If the beneficiaries make up a large or substantial body of public, then the trust in question is public. A public trust exists—for the purpose of its objects, the members of an uncertain and fluctuating body and is managed by a board of trustee. If, however, the beneficiaries are a narrow and specific group such as the employees of a company, then the trust is private.
- (b) In a Public Trust, the interest is vested in an uncertain and fluctuating body. They are the general public or class thereof. In a Private Trust, beneficiaries are definite and ascertained individuals. (Supreme Court in *Deoki Nandan v. Murlidhar* 1957 AIR 1331 1956 SCR 756)
- (c) Their domains are different; public trusts have larger and wider domain whereas private trusts have limited and narrow domain.

A trust for the benefit of employees of a company however numerous would not be considered as public charitable. For example, an industrialist who creates a trust for the benefit of his 5,000 people, their spouses and children is considered private because the beneficiaries are known.

### 2.2.3 - Exemptions available to Trusts

Exemptions available to Trusts are primarily governed by the provisions of the Income Tax Act, 1961. The exemption has to be read keeping in mind whether the Trust is a Public Charitable Trust, Private Trust, Religious Trust, etc.

#### Certain key exemptions are listed below:

Exemptions under Section 10 of the Income Tax Act, 1961 Total tax exemption is

available for certain types of trusts which include those which are formed for any of the activities related to sports, education, scientific research, professions, or promotion of khadi and village based industries, hospitals etc. and are notified as charitable or religious institutions.

#### **2.2.4- Tax exemptions under Section 11 of Income Tax Act, 1961**

As per Section 11, any income, profits or gains obtained by a trust from a property held by the trust established wholly for the purposes of religious or charitable nature shall not be included in the total income of the trust. Since such income shall not constitute to be a part of the trust's income, therefore, it is not taxable. However, as per section Such instances include where

- ❖ Income earned from the property held under the trust of private religious nature and does not endure benefit for the public, or
- ❖ The entire income of a charitable trust which is established for a particular religion, community or caste, income of those charitable trust whose funds do not get invested in the modes specified under section 11(5).

Section 161(1A) of the IT Act provides that if any part of the income of such a trust includes profits and gains from business, then the aforesaid principle of Section 161(1) would be ignored and the entire income of the trust including any profits and gains from business would be liable to income tax at the maximum marginal rate.

Thus, tax planning requires that the trustee should not have any income in the nature of profits and gains from business in the trust otherwise the entire income of the trust would become liable to maximum marginal rate of tax

#### **2.2.5- Formation of Trust**

- i. Trust can be created by any person over 18 years of age and mentally sound and capable of understanding. Before registration of a trust, the following aspects have to be decided:
- ii. Name of the trust
- iii. Address of the trust

- iv. Objects of the trust (charitable or Religious)
- v. One settler of the trust
- vi. Two trustees of the trust
- vii. Property of the trust-movable or immovable property (normally a small amount of cash/cheque is given to be the initial property of the trust, in order to save on the stamp duty).

### **1. Creation of a Trust Deed**

A trust may be created by any language sufficient to show the intention and no technical words are necessary. A trust may even be created by the use of words which are primarily words of condition, but such words will constitute a trust only where the requisites of a trust are present. Though the use of the word 'trust' is not needed to create a valid trust, the terms of the grant or will make it clear that an obligation is actually annexed to the ownership of the trust property.

#### **A trust-deed, generally, incorporates the following:**

- The name(s) of the author(s)/settlor(s) of the trust
- The name(s) of the trustee(s);
- The name(s) if any, of the beneficiary/ies or whether it shall be the public at large; 178 EP-SBEC
- The name by which the trust shall be known;
- The place where its principal and or other offices shall be situate;
- The property that shall devolve upon the trustee(s) under the trust for the benefit of the beneficiary/ies; Note: In terms of section 21 of the Indian Registration Act, a deed of trust relating to immovable property, must contain a description of the property sufficient to identify it for the purposes of registration.
- An intention to divest the trust property upon the trustee(s); Note: The intention should be expressed in unequivocal language and with a reasonable degree of certainty. Though no particular or technical words are necessary, yet the words used must be capable of definite meaning.
- The object and purpose of the trust;
- The procedure for appointment, removal or replacement of a trustee, their rights, duties and powers, etc.;

- The rights and duties of the beneficiary/ies;
- The mode and method of determination of the trust.
- Obtain the signatures of Settlor, Trustees and Witnesses s at the appropriate places. Their photographs and Identity proof is also to be furnished. The Deed must be witnessed by at least two witnesses. The Settlor must sign all the pages of the Trust Deed.
- Print the Trust Deed on stamp paper of appropriate value, depending on the stamp duty applicable in the State of execution.
- Register the Original deed in a Sub-Registrar office paying registration charges. A photocopy of the Deed is also required to be submitted. The photocopy of the Deed should also contain the signature of settlor on all the pages.
- At the time of registration, the settlor and witnesses must be personally present with their identity proof in original.
- The Sub- Registrar retains the photocopy and returns the original copy of the Trust Deed.
- Thereafter, the Trust can apply for a permanent account number for the trust and open a bank account for it as it is a separate entity

## Let's Sum Up

Trusts serve various purposes, from charitable to private benefits. They can be created by individuals or entities competent to contract. Public trusts benefit the public and enjoy greater tax exemptions, while private trusts benefit specific individuals. Forming a trust requires a well-drafted trust deed, clear objectives, and compliance with legal registration requirements.

## CHECK YOUR PROGRESS - QUIZ – 1

### 1. Which of the following are the characteristics of a company?

- a. Liability of the members is limited up to the face value of shares held by them
- b. It is a voluntary association of persons.
- c. A company is a separate body can sue and be sued in its own name
- d. All the above

### 2. Which of the following ensures that legal title is not inherited by a trustee's next

**of kin when the trustee dies?**

- a. Intestacy
- b. The trust does not fail for want of a trustee**
- c. Winner stay on
- d. Right of Survivorship

**3. Which one of the following is not necessary for the creation of trust?**

- a. The author of trust
- b. Trustee
- c. Legal representative**
- d. Beneficiary

**4. Trustee may be appointed except**

- a. Under a power contained in the instrument of trust
- b. By the consent of the beneficiary**
- c. By the court
- d. Under a statutory power

**5. The Indian trust Act shall apply to**

- a. The law relating to private trusts and trustees**
- b. Mutual relations of the members of an undivided family
- c. Public or private religious or charitable endowments
- d. Trusts to distribute prizes taken in war among the captors

## SECTION- 2.3- SOCIETY

### 2.3.1 Definition

A society is an association of persons united together by mutual consent to deliberate, determine and act jointly for some common purpose. Societies are usually registered for promotion of charitable activities like education, art, religion, culture, music, sports, etc., In India, The Societies Registration Act, 1860 lays down the procedure for society registration and operation in India. The Act has been adopted by most of the State Governments with/without modifications as considered by the respective State Governments.

According to Section 20 of the Societies Registration Act, 1860, societies can be formed for the following purposes:

- I. Charitable societies,
- II. The military orphan funds or societies established at the several presidencies of India,
- III. Societies established for the promotion of science, literature, or the fine arts for instruction, the diffusion of useful knowledge,
- IV. The diffusion of political education,
- V. The foundation or maintenance of libraries or reading-rooms for general use among the members or open to the public
- VI. Public museums and galleries of paintings and other works of art, collections of natural history, mechanical and philosophical inventions, instruments, or designs. Besides these purposes, the respective State Governments may provide for any other objects by their legislations.

### 2.3.2- Advantages of Society

- The process of formation and registration is simple.
- Record-keeping requirements are minimum and compliance with regulations is easy.
- Cost of compliance is low. Lesson 7 n Formation and Registration of NGO'S  
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- Least possibility of interference by the regulator.
- Exemption from tax due to charitable nature of operations.

### 2.3.3- Disadvantages of Society

- Tax exemption extended to societies may apply to public trusts only to the extent the Income Tax department accepts their activities as being charitable.
- Since such institutions are of charitable nature, it is an inappropriate form of a commercial venture;
- The concept of equity investment or ownership is virtually absent; Hence, it is not attractive for commercial investors interested in microfinance;
- Commercial investors regard the investments in such entities as risky mainly on account of their lack of professionalism and managerial practices and political leanings( in some cases) and are, therefore, reluctant to provide large scale funding to such bodies;
- In accordance with Section 45S of the RBI Act, 1934, no unincorporated bodies are allowed to accept deposits from the public. Organizations registered under the Societies Registration Act and the Trust Act are considered unincorporated bodies. Hence, legally speaking, they are not allowed to collect savings from their clients; and
- It is vulnerable to the implication under the Money Lenders Acts s (prevention of usurious interest rates) of various State Governments

### 2.3.4- Formation of a Society

Under Section 1 of the Societies Registration Act, 1860, any seven or more persons who have come together for any legal pursuits, including literary, scientific, charitable or social pursuits, may subscribe their names to a memorandum of association and file the same with the Registrar and form themselves into a society under this Act.

The memorandum of association filed with the Registrar should contain details such as the name and objectives of the society, names, addresses and occupations of the members of the governing body with which the management of the affairs of the society is entrusted. A copy of the rules and regulations of the society should be provided.

With the completion of these processes, the society could be registered with the Registrar after payment of a fee, which will be specified by the State Government from time to time. As per Section 4 of the Act, once in every year, an annual general meeting of the society should be conducted. If the rules do not provide for an annual general meeting, a list of the names, addresses and occupations of the members of the governing body should be presented to the Registrar, every year. Lesson 7 n Formation and Registration of NGO'S 179

Registration can be done either at the state level (i.e., in the office of the Registrar of Societies) or at the district level (in the office of the District Magistrate or the local office of the Registrar of Societies)

- I. Memorandum of association and rules and regulations
- II. Consent letters of all the members of the managing committee
- III. Authority letter duly signed by all the members of the managing committee • An affidavit sworn by the president or secretary of the society on non-judicial stamp paper of Rs.20/-, together with

a court fee stamp

- IV. A declaration by the members of the managing committee that the funds of the society will be used only for the purpose of furthering the aims and objects of the society.

The documents needed to be submitted to the Registrar are:

1. A letter requesting registration, signed by founding members. This letter will state the purpose of formation of the society and a requisition indicating that the society is registered under the Act. The signature of all members is mandatory.
2. A certified copy of the MoA, signed by the founding members, with a duplicate.
3. A certified copy of the rules and regulations, signed by the founding members, along with a duplicate copy.
4. A table with the names and address and occupation of all members of the society with their signatures
5. Minutes of the meeting (general body meeting conducted to set the rules and regulations)
6. Declaration by the president of the society
7. A sworn affidavit from the President or Secretary, declaring the relationship between the subscribers.
8. Address proof of registered office and no-objection certificate from the landlord.

The documents are to be filed with the Registrar along with the fees, and a suitable name (which should be unique and not suggest a relationship with the government or violate the provisions of the Emblem and Names Act, 1950). If the Registrar is satisfied with the application, the society will be registered.

### **2.3.5- Steps for Registering a Society in India**

A Society can be created by a minimum of 7 or more persons. Apart

from persons from India, companies, foreigners, as well as other registered societies can also register for the Memorandum of the society.

Society registration is maintained by state governments. Thus, the application for society registration must be created to the specific authority of the state, where the registered office of society is situated. For Society registration, the establishing members must agree with the name of society first and then prepare for the Memorandum, followed by Rules & Regulations of the society.

### **2.3.6- Selection of a Name**

When selecting a name for society registration, it is vital to understand that according to Society Registration Act, 1860, an identical or similar name of a currently registered society will not be allowed. Moreover, the proposed name shall not suggest any patronage of State Government or Government of India or contravene the provisions of the Emblem & Names Act, 1950

### **LET'S SUM UP**

Societies, as legally recognized entities, offer benefits such as limited liability, tax exemptions, and public trust but also face regulatory compliance challenges and complex management structures. The formation of a society involves drafting a Memorandum of Association and bylaws, gathering a minimum of seven members, and registering with the Registrar of Societies. Registered NGOs, including societies, can avail themselves of various tax exemptions and benefits to support their charitable activities.

### **CHECK YOUR PROGRESS - QUIZ - 1**

- 1 Which of the following is generally considered as a not for profit organisation?**
  - a. Charitable institution

- b. Cooperation
  - c. Audit firms
  - d. Insurance companies
- 2 Non-profit organisations are managed by**
- a. Managers
  - b. Government
  - c. Trustee
  - d. None of these
- 3 Co-operative movement first stated in**
- a. England
  - b. France
  - c. Spain
  - d. Germany
- 4 In India, the Co-operative Societies Act was passed in which year?**
- a. 1912
  - b. 1949
  - c. 1904
  - d. 1919
- 5 For Co-operative Credit Societies, the interest rate for deposits is fixed by:**
- a. Registrar
  - b. Government
  - c. General Body
  - d. RBI

## 4- UNIT SUMMARY

NGOs in India can be established as Section 8 Companies, Trusts, or Societies, each with its own advantages, requirements, and formation processes. Section 8 Companies focus on reinvesting profits in charitable objectives, Trusts serve both public and private purposes, and Societies operate as democratic entities benefiting the public. Each form enjoys

specific tax exemptions and benefits designed to support their charitable activities and compliance with legal requirements.

## 2.5 GLOSSARY

<b>Section 8 Company</b>	A type of company established for charitable purposes under Section 8 of the Companies Act, 2013.
<b>Trust</b>	A fiduciary relationship in which one party holds property for the benefit of another.
<b>Trust Deed</b>	A formal document creating a trust.
<b>Society</b>	An association of persons united by a common goal, typically registered under the Societies Registration Act, 1860.
<b>Memorandum of Association (MoA)</b>	A document that outlines the objectives and scope of activities for an NGO.
<b>Articles of Association (AoA)</b>	A document detailing the internal regulations and management of an NGO.

## 2.6 SELF-ASSESSMENT QUESTIONS

### Sl.No Questions

- 1 Define a Section 8 Company and explain its key features.
- 2 What are the steps involved in incorporating a Section 8 Company in India?
- 3 Give the meaning of Society.
- 4 What are the features of Company?
- 5 What are the Advantage of Society

### Essay Type

#### Sl.No Questions

- 1 Discuss the differences between a public trust and a private trust.
- 2 Explain the formation process of a society and its advantages and disadvantages.

- 3 What are the tax benefits available to NGOs under Sections 12A and 80G of the Income Tax Act?

## 2.7 ACTIVITIES – ASSIGNMENT

<b>1</b>	Analyze a real-world example of an NGO that transitioned from one form (trust, society) to another (Section 8 Company) and discuss the reasons and outcomes.
<b>2</b>	Discuss the significance of the Memorandum of Association (MoA) and Articles of Association (AoA) in the incorporation of a Section 8 Company.
<b>3</b>	Why might an NGO choose to register as a Section 8 Company rather than a society or trust?

## 2.9 SUGGESTED READINGS AND REFERENCES

1. Kailash Thakur, (2007) "Environment Protection Law and Policy in India", 2<sup>nd</sup> Edition, Deep & Deep Publication Pvt. Ltd., New Delhi.
2. Avtar Singh, (2015), "Intellectual Property Law", Eastern Book Company, Bangalore
3. Zad N.S and Divya Bajpai, (2022) "Setting up of Business Entities and Closure" (SUBEC), Taxmann, Chennai.

## UNIT III-LIMITED LIABILITY PARTNERSHIP AND JOINT VENTURE

Limited Liability Partnership: Definition - Nature and characteristics - Advantages and disadvantages - Procedure for incorporation - LLP agreement - Annual compliances of LLP- Business collaboration: Definition - Types -Joint venture: Advantages and disadvantages - Types - Joint venture agreement - Successful joint ventures in India- Special Purpose Vehicle - Meaning - Benefits - Formation.

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In this unit aims to provide learners will be equipped with a comprehensive understanding of LLPs, business collaborations, joint

ventures, and SPVs, along with the practical knowledge to apply these concepts in real-world business scenarios. The study of this unit, learners should be able to:

1. Understand the Concept of Limited Liability Partnership (LLP)
2. Analyze the Advantages and Disadvantages of LLP
3. Understand the Procedure for Incorporation of an LLP
4. Comprehend the Components of an LLP Agreement
5. Understand Annual Compliances for LLPs
6. Understand Business Collaboration and Joint Ventures
7. Differentiate Between Types of Joint Ventures
8. Understand Joint Venture Agreements:
9. Analyze Successful Joint Ventures in India:
10. Understand the Concept of a Special Purpose Vehicle (SPV)
11. Comprehend the Formation and Structure of SPVs
12. Comprehend the Formation and Structure of SPVs

### 3.1.1- LIMITED LIABILITY PARTNERSHIP

#### INTRODUCTION

Major forms of business organisation are proprietary firm, partnership firm under Indian Partnership Act and company under Companies Act. Proprietary firm has limitation in growth and does not have perpetual succession. Partnership form of organisation provides flexibility of operations and limited growth potential. However, its basic disadvantage is unlimited liability and the fact that partners are agents of partnership firm as well as other partners, since act of partner binds partnership firm which in turn binds other partners also.

A **Limited Liability Partnership (LLP)** is a type of partnership in which some or all partners have limited liabilities. This means that each partner is not responsible or liable for another partner's misconduct or negligence. LLPs are flexible legal and tax entities that allow partners to benefit from economies of scale by working together while also reducing

their liability for the actions of other partners. LLPs are common in professional businesses like law firms, accounting firms, medical practices, and wealth managers.

Indian legislation that enables the formation of LLPs in India. An LLP is a hybrid business entity that combines the features of a partnership firm and a company. It offers the benefits of a partnership firm, such as flexibility and tax efficiency, with the added advantage of limited liability to its partners. The Act provides provisions relating to the formation and regulation of LLPs and lays down the provisions for matters which are incidental or connected with the formation and regulation of LLPs. The LLP shall be a body corporate and a legal entity separate from its partners. The mutual rights and duties of the partners of the LLP inter se and those of the LLP and its partners shall be governed by an agreement done among the partners subject to the provisions of the Act. The LLP is a formal structure that requires a written partnership agreement and usually comes with annual reporting requirements depending on your legal jurisdiction. The provisions of the Indian Partnership Act, 1932 shall not apply to a limited liability partnership.

The provisions of the Indian Partnership Act, 1932 shall not apply to a limited liability partnership.

### **3.1.2 – Merits of Limited Liability Partnership**

Here's an over view of the merits and demerits of an LLP:

#### **1. Limited Liability:**

Partners enjoy limited personal liability, protecting their personal assets from business debts and liabilities. This feature encourages entrepreneurship and risk-taking, as partners are shielded from the full financial repercussions of business failures.

#### **2. Separate Legal Entity:**

An LLP is a distinct legal entity, capable of owning assets, entering contracts, and suing or being sued in its own name. Provides organizational autonomy, continuity, and simplifies legal and financial

transactions.

### **3. Flexible Management:**

Partners have flexibility in structuring and managing the LLP, avoiding the rigid hierarchy often found in incorporations. Allows for a more collaborative decision-making process and adaptation to the specific needs of the business.

### **4. Pass-Through Taxation:**

LLPs typically benefit from pass-through taxation, avoiding double taxation on both the entity and individual partners. Simplifies the tax structure and may result in tax advantages for partners.

### **5. Ease of Compliance:**

Generally, LLPs face fewer regulatory requirements and administrative burdens compared to corporations. Reduces the compliance workload, making it an attractive option for smaller businesses and professional service providers.

### **6. Professional Practice:**

LLPs are commonly used for professional services such as legal, accounting, and consulting practices. Offers professionals the benefits of limited liability while maintaining a partnership-style operational structure.

## **3.1.3- DEMERITS OF LIMITED LIABILITY PARTNERSHIP**

### **1. Complex Formation:**

Establishing an LLP can involve complex legal and regulatory processes, varying by Jurisdiction. May pose challenges for entrepreneurs unfamiliar with legal requirements.

### **2. Limited Capital:**

Raising capital may be challenging as LLPs cannot issue shares to the public. Limits the Growth potential of the business especially compared to public corporations.

### **3. Continuity Issues:**

The departure or death of a partner can lead to the dissolution of the LLP, unless otherwise stipulated in the agreement. Potential instability

and disruptions in case of partner changes.

Limits the applicability of the LLP structure in specific industries or sectors.

#### **4. Limited Invest or Attraction:**

Investors may be hesitant to invest in LLPs due to the absence of shares and the complexity of the partnership structure. Could hinder the ability to attract external funding for expansion or development.

#### **5. Uniform Taxation:**

While pass-through taxation is an advantage, it may not suit all partners, as profits and losses are distributed uniformly. May lead to disputes among partners regarding the distribution of income.

#### **6. Not Suitable for Large-Scale Businesses:**

### **3.1.4- Limited Liability Partnership Agreement**

LLPs may not be the most suitable structure for large-scale businesses with complex ownership and capital structure needs. Corporations may offer more flexibility in such scenarios.

A **Limited Liability Partnership (LLP) agreement** is a legal document that outlines the rights, duties, responsibilities, and relationships among the partners of an LLP. This agreement serves as the governing document for the LLP and helps establish the framework for its operation. Here are key components typically found in an LLP agreement:

#### **1. Name and Address of the LLP:**

- Clearly states the name and registered office address of the LLP.

#### **2. Business Activities:**

- Describes the nature of the LLP's business activities and the scope of its operations.

#### **3. Partnership Contributions:**

- Specifies the capital contributions made by each partner to the LLP.

#### **4. Profit Sharing and Loss Allocation:**

5. Outlines how profits and losses will be shared among the partners. This

may be based on capital contributions, ownership percentages, or other agreed-upon criteria. Management and Decision-Making:

#### **6. Partners' Authority and Restrictions:**

- Specifies the authority of each partner to act on behalf of the LLP.
- Sets any limitations or restrictions on the actions partners can take without the consent of others.

#### **7. Admission and Withdrawal of Partners:**

- Outlines the procedures for admitting new partners to the LLP.
- Describes the process for a partner's withdrawal or retirement, including the treatment of their capital and share of profits or losses.

#### **8. Transfer of Interests:**

- Addresses the conditions and procedures for transferring a partner's interest in the LLP, if allowed.
- May include restrictions on transferring interests to third parties.

#### **9. Dissolution and Winding Up:**

- Outlines the process for dissolving the LLP, including the distribution of assets and settlement of liabilities.
- Specifies the order of priority for distributing remaining assets among partners.

#### **10. Dispute Resolution:**

- Establishes mechanisms for resolving disputes among partners, such as through mediation or arbitration.

### **3.1.5- STEPS FOR THE INCORPORATION OF AN LLP**

**Reserving the name for the LLP:** The applicant first files the e-Form 1 to check the availability of the name and then register the name of the LLP. Once the name gets approved by the Ministry, it is reserved for the applicant for duration of 90 days. If the LLP fails to be incorporated within the given frame of time, they let go of the reservation and make it available for other applicants.

**In incorporating a new LLP:** After the reservation of the name for the LLP, the applicant has to file e-Form 2 for the incorporation of the LLP. It carries all the details of the LLP proposed, plus all the details of the partners and the designated partners.

1. The partners and the designated partners have to give their consent to act in the respective decided roles.
2. Filing of the LLP Agreement has to be done with the Registrar in Form 3 within 30 days from the incorporation of the LLP. Execution of the LLP Agreement is mandatory as per Section 23 of the LLP Act, 2008.
3. The LLP Incorporation process is complete after obtaining the approval of the LLP Agreement.

### **Incorporation of LLP**

Two or more persons can associate for carrying out any lawful business with a view to profit. They have to file incorporation document [similar to Memorandum of Association of a company], containing prescribed details like name, proposed business, address of registered office, name and address of partners, name and address of designated partners and other information as may be prescribed by rules [Section 11(2) of LLP Act, 2008].

The incorporation document should be filed electronically with Registrar having jurisdiction over the registered office of LLP in form FiLLiP [Form for incorporation of Limited Liability Partnership] [Rule 11 of LLP Rules, 2009].

First step is obtaining name approval. Second step is to file documents for incorporation. Name of LLP

Last words of name shall be LLP or Limited Liability Partnership. LLP should have name which should not be similar to name of other entity or trade mark of other person.

Every limited liability partnership shall have either the words limited liability partnership or the acronym—LLP as the last words of its name - section 15(1) of LLP Act.

Name should not be undesirable. [Section 15(2)(a) of LLP Act, 2008].

Name should not be identical or too nearly resembling to that of any other limited liability partnership or a company or a registered trade mark of any other person under the Trade Marks Act, 1999 - Section 15(2)(b) of LLP Act, amended vide LLP (Amendment) Act, 2021 w.e.f. 1-4-2022.

Name should be got reserved from ROC under section 16 of LLP Act, by submitting application in form RUN-LLP (Reserve Unique Name - LLP) with

prescribed fees (fee is as specified in Annexure A of LLP Rules, 2009).

The reservation of name will be communicated by ROC within seven days. If suggested name is rejected, one opportunity for submission shall be given for rectification of defects within 15 days [Rule 18(5) of LLP Rules, 2009].

Name approved will be reserved for a period of three months from date of intimation by ROC [Rule 18 (6) of LLP Rules, 2009].

Criteria for approval of name - The name should not be in violation of Emblems and Name (Prevention of improper use) Act, 1950 [Rule 18(1) of LLP Rules, 2009]. Name should not be offensive, similar to existing LLP, name of registered trade mark etc. Names like Cooperative, National, Union, Central, Federal, Republic, President, Rashtrapati, Consulate, Municipal, Panchayat, local authority etc. are not allowed. Names like Bank, Insurance, Company Secretaries, Chartered Accountant, Advocate etc. will not be allowed without approval of the regulatory authority [Rule 18(2) of LLP Rules, 2009]

### **Rectification of name of LLP**

Provision relating to rectification of name, where the name of LLP is identical or too similar to name of other LLP or company or violates provisions of Trade Marks Act, are made in section 17 of LLP Act as inserted w.e.f. 1-4-2022. If name of LLP is identical or too nearly resembling to that of any other limited liability partnership or a company or a registered trade mark of any other person under the Trade Marks Act, 1999, Registrar can order change of name. Application from proprietor of trade mark should be made within three years. However, subsequently the company can again change the name, if it so desires.

### **Publication of name and limited liability**

Every limited liability partnership shall ensure that its invoices, official correspondence and publications bear the following, namely -

- (a) The name, address of its registered office and registration number of the limited liability partnership; and
- (b) A statement that it is registered with limited liability-section 21(1) of LLP

Act. If the limited liability partnership contravenes the provisions of section 21, the limited liability partnership shall be liable to a penalty of ten thousand rupees – Section 21(2) of LLP Act, substituted vide LLP (Amendment) Act, 2021 w.e.f. 1-4-2022 [earlier sub-section provided for fine].

### **.3.1.6 – LLP AGREEMENTS**

An LLP agreement is a written document defining the agreement between the partners of a Limited Liability Partnership. It defines the rights and duties of all the partners towards each other and towards the firm.

Under the Limited Liability Partnership Act, the filing of an LLP agreement is mandatory while registering the firm within 30 days of the formation of the LLP. In the absence of the agreement all the rights and liabilities provided in Schedule of the act will apply to the partners and the LLP.

A well-defined LLP agreement sets the solid foundation for the business. A comprehensive, detailed LLP agreement defines the roles and responsibilities of a

#### CONTENTS OF LLP AGREEMENT

Let us take a look at the contents of a proper LLP agreement.

1. Firstly, it contains the name of the limited liability partnership firm. According to the Act, the name must always end with LLP.
2. It also contains the date of the agreement. The act states that the agreement must be registered within 30 days after incorporation.
3. Then welcome to the partner s contribution. The agreement has the ratio of the capital invested by the partners the profit-sharing ratio and other provisions regarding the capital contribution if any.
4. The agreement has the provisions related to the recording, storage, and maintenance of the books of accounts and other important documents
5. It includes the particulars of the capital accounts and current accounts. For example, where the drawings of the partner will be

recorded.

6. The agreement contains the terms of disassociation as well. If any partners want to withdraw from the LLP, then the procedure and process are listed out. Also, It contains the rights of the exciting partners, rights of the continuing partners, the division of firm assets etc.
7. Also contains the provisions for the admission of a new partner in to the LLP.
8. The agreement must also contain the procedural information regarding the sale or transfer of partnership rights. If such transfer of rights is prohibited, then it must be mentioned.

#### **Provisions in absence on an LLP Agreement**

If there is no registered LLP agreement between the partners, the provisions of Schedule of the LLP Act 2008 shall apply to all the partners. These provisions are as follows,

- a. All partners of LLP shall share profits and losses equally.
- b. Partners shall have indemnity for any personal payments made by him in the ordinary course of business or anything done for the preservation of assets of the business
- c. All partners can take part in the management of the firm
- d. No partner is entitled to any remuneration or salary for the management of the LLP
- e. Admission of any new partner will require the permission of all the partners
- f. Any other issue will be decided by a vote of all the partners, and a simple majority will be needed to pass are solution. But if the firm wants to change the nature of the business, all the partners must consent.
- g. Majority of the partners cannot expel a partner unless there is an express agreement between partners.
- h. Any disputes between the partners of an LLP which are not resolved amongst themselves must be referred for arbitration as per the act.

2. A Limited Liability Partnership (LLP) is a type of business structure that combines features of both a partnership and a corporation, providing its members with limited liability. This means that the personal assets of the partners are protected in case of business debts or liabilities.

### **3.1.7 –Limited Liability Partnership Annual Compliance**

Limited Liability Partnerships (LLPs) are required to comply with various annual regulatory and statutory obligations to ensure proper governance and transparency. The specific compliance requirements may vary by jurisdiction, but here are common annual compliance obligations for LLPs:

#### **1. Annual Return Filing:**

- a. LLPs are generally required to file an annual return with the Registrar of Companies (RoC).
- b. The annual return provides details about the LLP's business activities, financial position, and other relevant information.
- c. The filing due date varies by jurisdiction, but it is typically within 60 days from the end of the financial year.

#### **2. Financial Statements:**

- a. LLPs must prepare and file financial statements, including the Statement of Account and Solvency, with the RoC.
- b. These statements should be audited by a qualified auditor.
- c. The due date for filing financial statements is generally within 30 days from the end of six months of the financial year.

#### **3. Income Tax Return Filing:**

- a. LLPs are required to file income tax returns annually with the appropriate tax authorities.
- b. The due date for income tax return filing may vary by jurisdiction, but it is typically within a few months from the end of the financial year.

#### **4. Tax Audit (if applicable):**

1. LLPs meeting specified turnover thresholds may be required to undergo a tax audit as per tax laws.

2. The tax audit report must be filed along with the income tax return.

**5. Annual General Meeting(AGM):**

While LLPs are not mandated to hold an Annual General Meeting as companies do, partners may still choose to convene meetings to discuss business matters.

**6. Maintaining Books of Accounts:**

LLPs are required to maintain proper books of accounts reflecting their financial transactions.

**7. Late Filing Fees and Penalties:**

LLPs should ensure timely filing of all required documents to avoid late filing fees and penalties.

### 3.1.8- BUSINESS COLLABORATION

#### BUSINESS COLLABORATION

Business collaboration refers to the process of two or more individuals or organizations working together to achieve common goals or objectives. It involves the sharing of resources, expertise, and responsibilities to enhance overall efficiency and effectiveness. Collaboration in business can take various forms, including partnerships, joint ventures, strategic alliances, and other cooperative arrangements.

**Key aspects and characteristics of business collaboration include:**

**1.Mutual Benefit:** Collaboration is typically driven by the mutual benefit of all parties involved. Each participant aims to achieve specific objectives or gain advantages that might be difficult or less efficient to attain independently.

**2.Shared Goals:** Successful collaborations are built on shared goals and a common vision. All parties must align their efforts toward achieving specific outcomes, whether it's developing a new product, entering a new market, or solving a particular problem.

**3.Resource Sharing:** Collaborators often pool their resources, which can include financial investments, intellectual property, technology, human capital, or physical assets. This sharing of resources allows for a more efficient and cost-effective approach to reaching common objectives.

**4.Risk and Reward Sharing:** In collaborative efforts, risks and rewards are often shared among the participating entities. This helps distribute the potential downsides while ensuring that all parties have incentives to contribute actively to the collaboration's success.

**5.Open Communication:** Effective communication is crucial in business collaboration. Participants need to share information transparently, coordinate their activities, and address any challenges or issues that may arise during the collaboration.

collaborations need to be flexible and adaptable to changing circumstances. Successful collaborations are characterized by the ability to adjust strategies and approaches as needed.

**6.Trust and Relationship Building:** Trust is a foundational element of successful collaborations. Building and maintaining strong relationships among collaborators are essential for long-term success. Trust fosters open communication and a willingness to work together toward common goals.

## LET'S SUM UP

Limited Liability Partnerships (LLP) offer a blend of the partnership and corporate business structures with benefits such as limited liability, operational flexibility, and tax advantages, though they may not suit large capital-intensive businesses. Incorporation involves name reservation, drafting an LLP agreement, filing required forms, and compliance with annual filing obligations. Business collaboration, encompassing various types like joint ventures, strategic alliances, franchising, licensing, and consortia, enables businesses to leverage shared resources, expertise, and markets to achieve strategic objectives and competitive advantages.

## CHECK YOUR PROGRESS -QUIZ-1

**1. A limited liability partnership is:**

- a. Not a separate entity from that of its partners
- b. A legal entity separate from that of its partners
- c. **A body corporate**

d. Only B and C are correct

**2. A LLP shall be governed by the provision of**

- a. The companies Act, 2013
- b. **The limited Liability Partnership Act, 2008**
- c. The co-operative Societies Act, 1912
- d. The Indian Partnership Act, 1932

**3. How many designated partners are required in LLP**

- a. At least two
- b. Seven
- c. **Two**
- d. At least seven

**4. Who is authority to grant compounding of offence under the LLP Act?**

- a. The Registrar of Firms
- b. **The central Government**
- c. The registrar
- d. The Registrar of Co-operatives

**5. At which place the LLP shall maintain books of accounts:**

- a. At its Branch Office
- b. At its Corporation office
- c. At its Head Office
- d. **At its Registered Office**

### 3.2- Joint Venture

Joint Venture is a business preparation in which more than two organizations or parties share the ownership, expense, return of investments, profit, governance, etc. To gain a positive synergy from their competitors, various organizations expand either by infusing more capital or by the medium of Joint Ventures with organizations.

#### Joint Ventures

Joint Ventures can be with accompany of same industry or can be of some other industry, but with a combination of both, they will generate a competitive advantage over other players in the market.

In short, when two or more organizations join hands together for creating synergy and gain a mutual competitive advantage, the new entity is called a Joint Venture. It can be a private company, public company or even a foreign company. In India, many companies underwent joint venture with various foreign companies, which were either technologically more advanced or geographically more scattered. The major joint ventures in India were done in sectors like Insurance, Banking, Commercial Transport vehicle, etc.

### **3.2.1 – Characteristics of Joint Venture**

#### **1. Creates Synergy**

A joint venture is entered between two or more parties to extract the qualities of each other. One company may possess a special characteristic which another company might lack with. Similarly, the other company has some advantage which another company cannot achieve. These two companies can enter into a joint venture to generate synergies between them for a greater good. These companies can work on economies of large scale to give cost advantage.

#### **2. Risk and Rewards can be shared**

In a typical joint venture agreement between two or more organization, may be of the same country or different countries, there are many diversifications in culture, technology, geographical advantage and disadvantage, target audience and many more factors to overcome. So the risks and rewards pertaining to the activity for which the joint venture is agreed upon can be shared between the parties as decided and entered in to the legal agreement.

#### **3. No Separate Laws**

As for joint venture, there is no separate governing body which regulates the activities of the joint venture. Once they are into a corporate structure, then the Ministry of Corporate Affairs in association with Registrar of Companies keep a check on companies. Apart from that, there is no separate law for governing joint ventures.

### 3.2.2- ADVANTAGE OF JOINT VENTURE

#### 1. Economies of Scale

Joint Venture helps the organizations to scale up with their limited capacity. The strength of one organization can be utilized by the other. This gives the competitive advantage to both the organizations to generate economies of scalability.

#### 2. Access to New Markets and Distribution Networks

When one organization enters into joint venture with another organization, it opens a vast market which has a potential to grow and develop. For example, when an organization of United States of America enters into a joint venture with another organization based at India, then the company of United States has an advantage of accessing vast Indian markets with various variants of paying capacity and diversification of choice.

At the same time, the Indian company has the advantage to access the markets of the United States which is geographically scattered and has good paying capacity where the quality of the product is not compromised. Unique Indian products have big markets across the globe.

#### 3. Innovation

Joint ventures give an added advantage to upgrading the products and services with respect to technology. Marketing can be done with various innovative platforms and technological up gradation helps in making good products at efficient cost. International companies can come up with new ideas and technology to reduce cost and provide better quality products.

#### 4. Low Cost of Production

When two or more companies join hands together, the main motive is to provide the products at a most efficient price. And this can be done when the cost of production can be reduced or cost of services can be managed. A genuine joint venture aims at this only to provide best products and services to its consumers.

## 5. Brand Name

A separate brand name can be created for the Joint Venture. This helps in giving a distinctive look and recognition to the brand. When two parties enter into a joint venture, then goodwill of one company which is already established in the market can be utilized by another organization for gaining a competitive advantage over other players in the market.

## 6. Access to Technology

Technology is an attractive reason for organizations to enter into a joint venture. Advanced technology with one organization to produce superior quality of products saves a lot of time, energy, and resources. Without the further investment of huge amount again to create a technology which is already in existence, the access to same technology can be done only when companies enter into joint venture and give a competitive advantage.

### 3.2.3- DISADVANTAGES OF JOINT VENTURE

There are significant risks relating to liabilities, possible conflicts, and disputes between the partners. Reasons for this can be:

- Unclear objectives of the venture
- Lack of communication between the partners
- Expectation also not met
- Discrepancies in the level of expertise and investment of either party
- Unequal distribution of work and resources
- Lack of cooperation due to different cultures and management
- Lack of leadership and support
- Conflict between the workers
- Communication between the partners
- Expectation also not met
- Discrepancies in the level of expertise and investment of either party
- Unequal distribution of work and resources
- Lack of cooperation due to different cultures and management

- Lack of leadership and support
- Conflict between the workers

### 3.2.4- TYPES OF JOINT VENTURE

Joint ventures (JVs) are business arrangements where two or more parties pool their resources and expertise to collaborate on a specific project, venture, or business activity. There are several types of joint ventures, each with its own characteristics and purposes. Here are some common types:

#### 1. Equity Joint Venture:

In an equity joint venture, the participating entities create new company, and each partner contributes capital in the form of equity. The ownership and profits are typically shared based on the agreed-upon percentage of equity ownership.

#### 2. Contractual Joint Venture:

This type of joint venture is based on a contractual agreement between the participating parties. They collaborate for a specific project or purpose without establishing a separate legal entity. Once the project is completed, the joint venture dissolves.

#### 3. Cooperative Joint Venture:

Cooperative joint ventures involve collaboration between partners, often for mutual benefit, without forming a new legal entity. This type of joint venture can be more flexible, allowing parties to work together on specific projects or initiatives.

#### 4. Consortium:

A consortium is a type of joint venture where multiple parties come together to work on a project, typically in large-scale industries such as construction, infrastructure, or research. Each member retains its independence and contributes to the consortium's goals.

#### 5. Minority/ Majority Joint Venture:

In a minority joint venture, one partner holds less than 50% ownership, while the majority joint venture involves one partner holding more than 50%

ownership. The ownership structure can influence decision-making and control within the joint venture.

#### **6. International Joint Venture:**

International joint ventures involve collaboration between companies from different countries. These ventures can be complex due to cultural, legal, and regulatory differences, as well as varying business practices.

#### **7. Vertical Joint Venture:**

This type of joint venture occurs when two companies in the same industry but different stages of the production or distribution process collaborate. For example, a manufacturer might form a vertical joint venture with a distributor.

#### **8. Horizontal Joint Venture:**

In a horizontal joint venture, companies operating in the same or similar industry and at the same stage of the production or distribution process collaborate. This type of joint venture aims to achieve economies of scale or enter new markets together.

#### **9. Equity-Based vs. Non-Equity Joint Venture:**

Equity-based joint ventures involve the creation of a new legal entity with shared ownership. In contrast, non-equity joint ventures are based on contractual agreements without establishing a separate entity, and participants share risks and rewards without forming a new company.

The choice of the type of joint venture depends on the specific goals, resources, and preferences of the participating entities. Legal and regulatory considerations, as well as the nature of the project or venture, also play a significant role in determining the most suitable joint venture structure.

### **3.2.5- JOINT VENTURE AGREEMENT**

#### **1. Identification of Parties:**

Clearly specify the legal names and addresses of the parties entering into the joint venture.

#### **2. Recitals:**

Provide back ground information and context regarding the purpose and

objectives of the joint venture.

### **3.Objectives and Scope:**

Define the specific goals, objectives, and scope of the joint venture, including details about the project, business activities, or tasks the parties will collaborate on.

### **4.Contributions:**

Outline the contributions of each party, which may include financial investments, assets, intellectual property, technology, or other resources. Specify the value and nature of each contribution.

### **5.Ownership and Management:**

Define the ownership structure of the joint venture, including the percentage of Ownership held by each party. Detail the decision-making processes, responsibilities, And the management structure.

### **6.Profits and Losses:**

Clearly stipulate how profits and losses will be allocated among the parties. This May be based on ownership percentages or other agreed-upon criteria.

### **7.Term and Termination:**

Establish the duration of the joint venture and conditions under which it may be terminated. Include provisions for early termination, extension, or renewal if applicable.

### **8.Confidentiality:**

Include clauses to protect confidential information shared between the parties during the course of the joint venture. Specify the duration of confidentiality obligations.

### **9.Non-Compete and Non-Solicitation:**

Address any restrictions on the parties engaging in similar activities or soliciting each other's employees or clients during and after the joint venture.

### **10. Governing Law:**

Specify the jurisdiction and governing law that will apply to the joint venture agreement.

**11. Indemnification:**

Define the responsibilities of each party regarding indemnification for losses, liabilities, or damages incurred during the joint venture.

**12. Insurance:**

Specify the types and amounts of insurance coverage required for the joint venture, if applicable.

**13. Dissolution and Liquidation:**

Detail the process for dissolving the joint venture and distributing assets or liabilities in the event of termination.

**14. Amendments:**

Outline the procedure for amending the joint venture agreement, including the consent

Requirements of the parties.

**15. Miscellaneous Provisions:**

Include any other relevant provisions, such as force majeure, waivers, or notices.

### 3.2.6- SUCCESSFUL JOINT VENTURES

#### SUCCESSFUL JOINT VENTURES

Several successful joint ventures have taken place in India, spanning various industries and sectors. Success in a joint venture often depends on factors such as alignment of goals, effective collaboration, and understanding of the local business landscape. Here are a few examples of successful joint ventures in India:

**1. Maruti Suzuki India Limited:**

Established in 1981, Maruti Suzuki is a collaboration between the Indian government and Suzuki Motor Corporation of Japan. The joint venture has been highly successful in the automotive sector, making Maruti Suzuki one of the leading car manufacturers in India.

**2. Hindustan Unilever Limited (HUL):**

HUL is a joint venture between Hindustan Petroleum Corporation Limited (HPCL) and Unilever. The collaboration has been successful in the fast-

moving consumer goods (FMCG) sector, with HUL being a major player in the Indian market.

### **3. Sony Pictures Networks India(SPNI):**

Sony Pictures Networks India is a joint venture between Sony Pictures Television and Multi Screen Media (MSM) in India. This collaboration has been successful in the media and entertainment industry, offering a range of television channels and digital content.

### **4. Bharti Walmart Private Limited:**

Bharti Walmart was a joint venture between Bharti Enterprises and Walmart Stores Inc. It aimed to operate cash and carry stores in India. While this joint venture ended in 2013, it marked an important collaboration in the retail sector.

### **5. Hero Moto Corp:**

Originally a joint venture between Hero Group and Honda Motor Company, Hero Moto Corp is now an independent entity. The collaboration between Hero and Honda played a crucial role in establishing Hero as one of the largest two-wheeler manufacturers in India.

### **6. Tata Consultancy Services (TCS):**

TCS is a leading global IT services and consulting company and is part of the Tata Group. While not a traditional joint venture, TCS exemplifies successful collaboration within a diversified business conglomerate, contributing significantly to India's IT industry.

### **7. ICICI Prudential Life Insurance:**

ICICI Prudential Life Insurance is a joint venture between ICICI Bank and Prudential Corporation Holdings Limited. This collaboration has been successful in the insurance sector, making ICICI Prudential one of the prominent life insurance providers in India.

### **8. Samsung India Electronics Private Limited:**

Samsung's operations in India have seen success through its subsidiary, Samsung India Electronics, which manufactures and sells a wide range of electronic products. While not a traditional joint venture, it reflects the success of multinational corporations in collaboration with local entities.

### 3.2.7- SPECIAL PURPOSE VEHICLE

A Special Purpose Vehicle (SPV), also known as a Special Purpose Entity (SPE), is a legal entity created for a specific, often limited, purpose. SPVs are commonly used in various financial, business, and investment transactions to isolate specific risks, assets, or operations from the broader activities of the parent company or companies.

The goal is to provide financial and legal separation for a particular venture or project. Here are key features and uses of Special Purpose Vehicles:

#### 1. Limited Scope:

SPVs are established with a narrow and well-defined purpose, such as holding specific assets, undertaking a particular project, or facilitating a financial transaction. Their activities are limited to the objectives outlined in their formation.

#### 2. Legal Independence:

An SPV is a separate legal entity from its sponsors or creators. It has its own legal personality, which helps protect the sponsors from the potential risks and liabilities associated with the SPV's activities.

#### 3. Ring-Fencing Risks:

One of the primary purposes of an SPV is to isolate and ring-fence certain risks or obligations. This separation helps contain the impact of adverse events or financial difficulties within the SPV without affecting the broader operations of the parent company.

#### 4. Asset Securitization:

SPVs are commonly used in asset securitization transactions. In this context, the SPV is created to hold and manage a pool of financial assets (such as loans, mortgages, or receivables), and the income generated from these assets is used to service debt or securities issued by the SPV.

#### 5. Project Financing:

SPVs are frequently employed in project finance arrangements. They serve as entities dedicated to financing, developing, and operating specific

project, such as infrastructure, energy, or real-estate. The cash flows generated by the project are often used to repay debt held by the SPV.

#### **6. Bankruptcy Remote:**

SPVs are structured to be bankruptcy remote, meaning that the insolvency or financial difficulties of the parent company do not automatically lead to the bankruptcy of the SPV. This provides protection to investors and creditors involved in transactions with the SPV.

#### **7. Risk Management:**

By creating an SPV, companies can manage and allocate risks more effectively. This is particularly useful in complex financial transactions where the exposure to certain risks needs to be limited or mitigated.

#### **8. Regulatory Compliance:**

SPVs are sometimes established to comply with regulatory requirements or accounting standards. For example, they may be used to keep certain assets or liabilities off the balance sheet of the parent company.

#### **9. Real Estate Transactions:**

In real estate deals, SPVs are often used to hold and manage specific properties, facilitating easier management of ownership, financing, and potentially simplifying Transactions involving those properties.

### **3.2.8- BENEFITS OF SPECIAL PURPOSE VEHICLES**

It's important to note that while SPVs offer benefits in terms of risk management and financial structuring, there are also concerns related to their use, particularly when they are perceived as vehicles for financial engineering or off-balance-sheet activities. Regulatory authorities often closely monitor the use of SPVs to ensure transparency and prevent abuse. Special Purpose Vehicles (SPVs) offer several benefits in various business, financial, and investment contexts. The advantages of using SPVs include:

#### **1. Risk Isolation:**

SPVs are effective in isolating and ring-fencing specific risks associated with a particular project, transaction, or set of assets. This helps protect the sponsors

and their broader business operations from the potential negative impact of adverse events.

## **2. Legal and Financial Independence:**

SPVs are separate legal entities with their own legal and financial identities. This independence provides a clear separation between the SPV and its sponsors, reducing the risk of legal liabilities or financial obligations affecting the sponsors' other activities.

## **3. Enhanced Financing Opportunities:**

SPVs are commonly used in project financing and asset securitization. By creating an independent entity dedicated to a specific project or asset pool, sponsors can attract financing more easily, as lenders and investors can assess the financial health and risks of the SPV independently.

## **4. Flexible Capital Structure:**

SPVs allow for the creation of a tailored capital structure to meet the specific needs of a project or transaction. This flexibility in structuring financing arrangements contributes to efficient risk management and capital allocation.

## **5. Bankruptcy Remote Structure:**

SPVs are often structured to be bankruptcy remote. This means that the financial difficulties or bankruptcy of the parent companies do not automatically lead to the

bankruptcy of the SPV. This feature is particularly attractive to investors and creditors involved in transactions with the SPV.

## **6. Asset Securitization:**

In asset securitization, SPVs are used to hold and manage a pool of financial assets, such as loans or receivables. This allows sponsors to convert illiquid assets into tradable securities, improving liquidity and facilitating capital market transactions.

## **7. Facilitates Mergers and Acquisitions (M&A):**

SPVs can be employed in M&A transactions to facilitate the acquisition or disposition of specific assets. By using an SPV, the acquiring entity can segregate and manage the acquired assets independently.

### **8. Regulatory and Tax Efficiency:**

SPVs may be structured to comply with specific regulatory requirements and take advantage of tax benefits. By isolating certain assets or transactions within an SPV, sponsors can optimize their tax positions and navigate regulatory environments more efficiently.

### **9. Real Estate Transactions:**

SPVs are commonly used in real estate deals to hold and manage specific properties. This facilitates easier management of ownership, financing, and potentially simplifies transactions involving those properties.

### **10. Project Management:**

In project finance, SPVs are created to manage the development, construction, and operation of a specific project. This allows for focused project management and enables sponsors to allocate resources efficiently.

## **3.2.9- Formation of Special Purpose Vehicle**

While SPVs offer various benefits, it's important to note that their use requires careful consideration of legal, financial, and regulatory aspects. Misuse or improper structuring of SPVs can lead to legal challenges and regulatory scrutiny. Consulting with legal and financial professionals is crucial when establishing and utilizing SPVs in specific business or financial transactions.

The formation of a Special Purpose Vehicle (SPV) involves several steps, including legal, financial, and administrative processes. Below is a general guide to the formation of an SPV:

#### **1. Define Purpose and Objectives:**

Clearly define the purpose and objectives of the SPV. Identify the specific project, transaction, or business activity that the SPV will be created to undertake.

#### **2. Legal Structure:**

Choose the legal structure of the SPV based on the regulatory environment, tax considerations, and the specific goals of the venture. Common legal structures for SPVs include corporations, limited liability companies (LLCs), or trusts.

**3. Name and Registration:**

Choose a unique and suitable name for the SPV. Check for the availability of the chosen name to ensure there are no conflicts. Register the SPV with the appropriate regulatory authorities, complying with local laws and regulations.

**4. Appointment of Directors/Managers:**

Appoint directors or managers for the SPV. These individuals will be responsible for overseeing the operations and decision-making of the SPV. Ensure that the appointed individuals have the necessary qualifications and expertise.

**5. Drafting of Articles of Incorporation or Operating Agreement:**

Prepare the articles of incorporation (for corporations) or the operating agreement (for LLCs). These documents outline the structure, purpose, governance, and operational details of the SPV. They need to be compliant with local laws and regulations.

**6. Capitalization:**

Determine the capital structure of the SPV, including the amount and nature of capital contributions from each sponsor or participant. Clearly outline the ownership structure and how profits and losses will be distributed among the participants.

**7. Obtain Necessary Approvals:**

Obtain any necessary approvals or licenses from regulatory authorities. This may include approvals related to the specific industry or sector in which the SPV operates.

**8. Establish a Registered Office:**

Designate a registered office for the SPV. This is the official address where legal documents and notices can be served. Ensure compliance with local requirements regarding the registered office.

**9. Open Bank Accounts:**

Open one or more bank accounts in the name of the SPV. Clearly define the authorized signatories and ensure compliance with local banking

regulations.

#### **10. Drafting of Agreements:**

Draft agreements related to the SPV's activities, such as joint venture agreements, financing agreements, or any other relevant contracts. Clearly articulate the roles, responsibilities, and obligations of all parties involved.

#### **11. Compliance with Tax Laws:**

Ensure compliance with local tax laws and regulations. Determine the most tax-efficient structure for the SPV based on the jurisdiction and the nature of the activities.

#### **12. Record Keeping and Reporting:**

Establish a system for record-keeping and reporting to ensure compliance with regulatory and financial reporting requirements.

#### **13. Ongoing Compliance:**

Regularly monitor and ensure ongoing compliance with all legal, regulatory, and contractual obligations. This includes holding regular board meetings, filing required reports, and maintaining statutory records.

## **LET'S SUM UP**

Joint ventures offer shared resources, risk distribution, and market access but can face challenges like control issues and cultural differences. They come in various forms such as equity, contractual, horizontal, and vertical joint ventures, with successful examples in India including Maruti Suzuki and Tata Starbucks. Special Purpose Vehicles (SPVs) are separate legal entities created to isolate financial risk, offering benefits like risk isolation, improved financing, and tax advantages. Forming an SPV involves defining its objective, choosing a legal structure, incorporating it, securing funding, and ensuring regulatory compliance.

## **CHECK YOUR PROGRESS - QUIZ - 1**

### **1 A limited liability partnership is:**

- a) Not a separate entity from that of its partners
- b) A legal entity separate from that of its partners

c) A body corporate

d) **Only B and C are correct**

**2 A LLP shall be governed by the provision of :**

a) The Companies Act, 2013

b) **The Limited Liability Partnership Act, 2008**

c) The Co-operative Societies Act, 1912

d) The Indian Partnership Act, 1932

**3 How many designated partners are required in LLP:**

a) At least two designated partners

b) Seven designated partners

c) **Two designated partners**

d) At least seven designated partners

**4 Who is authority to grant compounding of offence under the LLP Act:**

a) The Registrar of Firms

b) **The Central Government**

c) The Registrar

d) The Registrar of Co-operatives

**5 Joint venture account is a**

a) **Personal account**

b) Real account

c) Nominal account

d) None

### 3.3 UNIT SUMMARY

This summary encapsulates the key aspects of Limited Liability Partnerships (LLP), business collaborations including joint ventures, and Special Purpose Vehicles (SPVs), highlighting definitions, characteristics, advantages, disadvantages, types, formation procedures, and successful examples. Joint ventures offer shared resources, risk distribution, and market access but can face challenges like control issues and cultural differences. They come in various forms such as equity, contractual, horizontal, and vertical joint ventures, with successful examples in India including Maruti Suzuki and Tata

Starbucks. Special Purpose Vehicles (SPVs) are separate legal entities created to isolate financial risk, offering benefits like risk isolation, improved financing, and tax advantages. Forming an SPV involves defining its objective, choosing a legal structure, incorporating it, securing funding, and ensuring regulatory compliance.

### 3.4 GLOSSARY

<b>Liability</b>	The state of being responsible for something, especially by law.
<b>Perpetual Succession</b>	The continuation of an entity despite changes in membership.
<b>Digital Signature Certificate (DSC)</b>	An electronic form of a signature used for electronic documents
<b>Director Identification Number (DIN)</b>	A unique identification number for a director of a company
<b>Registrar of Companies (ROC)</b>	A government office that deals with company registrations and compliance
<b>Strategic Alliance</b>	A formal agreement between two or more organizations to pursue a set of agreed-upon goals.

### 3.5 Self-Assessment Questions

#### Short Answers

##### Sl. no      Questions

- 1      What are the characteristics of Partnership?
- 2      Give objectives of Joint Venture.
- 3      Explain LLP Agreement.

#### **Essay Type**

##### Sl .no      Questions

- 1      What are the types Joint ventures?
- 2      What are the advantage sand disadvantages of partnership?
- 3      Explain the benefits of Business Collaboration.

### 3.6 Activities/Exercises

1	Maruti Udyog Ltd., an Indian government-owned car manufacturer, entered into a joint venture with Suzuki Motor Corporation, a Japanese automotive company, in 1981
2	Draft a detailed procedure for incorporating an LLP in a specific jurisdiction, including the necessary documentation and compliance requirements.
3	Create a proposal for a joint venture between two companies, outlining the strategic objectives, contributions of each partner, and expected outcomes.
4	Develop a plan for forming an SPV to undertake a specific project, detailing the benefits, structure, and steps involved in its creation.

### 3.7 Suggested Readings/ References

1. The Water (Prevention and Control of Pollution) Act, 1974, Bare Act, 2022 Edition, Universal/LexisNexis, Noida
2. Cliff Ennico, (2005) "Small Business Survival Guide Starting Protecting and Securing your Business for Long-Term Success", Adams Media, USA
3. Daniel Sitarz,(2011) "Sole Proprietorship: Small Business Start-up Kit", 3<sup>rd</sup>Edition, Nova Publishing, USA

## UNIT IV: REGISTRATION AND LICENSES

Registration and Licenses: Introduction - Business entity registration - Mandatory registration - PAN - Significance - Application and registration of PAN - Linking of PAN with Aadhar - TAN - Persons liable to apply for TAN - Relevance of TAN - Procedure to apply for TAN - GST: Procedure for registration - Registration under Shops and Establishment Act -MSME registration - Clearance from Pollution Control Board - FSSAI registration and license - Trade mark, Patent and Design registration.

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In this unit, learners should be able to navigate the complex landscape of business registrations and licenses, ensuring compliance and leveraging the benefits of each registration and license for their businesses. Learners should aim to achieve the following objectives:

- Understand Business Entity Registration
- Recognize Mandatory Registrations
- Comprehend PAN (Permanent Account Number)
- Understand TAN (Tax Deduction and Collection Account Number)
- Grasp GST (Goods and Services Tax) Registration
- Understand Registration under Shops and Establishment Act
- Recognize MSME (Micro, Small, and Medium Enterprises) Registration
- Obtain Clearance from Pollution Control Board
- Understand FSSAI (Food Safety and Standards Authority of India) Registration and License

- Understand Intellectual Property Registrations

## **4.1.1– REGISTRATION AND LICENSES: INTRODUCTION**

### **INTRODUCTION**

A business entity is required to secure various registration and licenses in order to set up its businesses in India. This chapter deals with the list of Mandatory as well as Additional Registration requirements and the Licenses along with their detailed procedures, in order to apprise the readers on the hassle free process of setting up of business in India.

## **4.1.2- Documents Required to Register a Company in India**

The government has introduced a Simplified Proforma for Incorporating a Company Electronically (SPICe), an integrated single-point application that enables the stakeholders to carryout legalities of company registration. The portal can be used to complete formalities such as Company Name Registration, Allotment of DIN (for Directors and Incorporation) along with allotment of Permanent Account Number (PAN) and Tax Collection and Deduction Account Number (TAN) to the new company.

Following documents are needed to be submitted while registering a company in India. Documents Required for Company Registration from Shareholders and Directors

### **A. Identity Proof Documents**

1. Permanent Account Number
2. Aadhaar Card/Passport/Driving License/Voter Identity Card( at least one from the list)

### **B. Address Proof Documents**

1. Telephone Bill/Mobile Bill
2. Electricity Bill/Water Bill
3. Copy of the Bank Passbook with latest transaction entry or Bank Statement (not more than 2 month sold)

### C. Passport size Photographs (3each)

Important note: All the documents mentioned above must be Self-Attested by the stakeholders involved. It is also advised to submit the latest documents and the telephone bill; the electricity bill should not be older than 2 months

#### 4.1.3- Registration of a Private Limited Company in India

Following are the steps to register a Private Limited Company in India.

1. Put an application to get the Digital Signature Certificate
2. Apply for the DIN(Director Identification Number)
3. Check and send an application for the name availability
4. File the EMOa and EAOA to register the private limited company
5. Application for the PAN and TAN of the company
6. Get the Certificate of incorporation, issued by the Registrar of Company and PAN and TAN.
7. Open a current bank account in the company name.

#### 4.1.4- Registration of a Proprietorship Company In India

Unlike other types of businesses, the proprietorship is the most straightforward company to register in India. To register the proprietorship company in India, the applicant needs to have the following documents ready - Aadhar card, PAN card, Bank Account and Registered Office Proof.

1. Open a Current Account in the name of the Company name in any Bank.
2. GST Registration (depends on the type of business)
3. Shop Act License
4. MSME Registration /Udyam/ Udyog/SSI Registration.
5. IEC Code(Import-Export) FSSAI/Trademark

#### 4.1.5- Registration of a Start-Up Company in India

The following steps are needed if you want to register your start-up company in India.

1. Get the Incorporation/Registration Certificate of your start-up
2. Details of the Directors

3. Proof of concept like pitch deck/web site link/video(in case of a validation/early traction/scaling stage start-up)
4. Register Your Start-up with Start-up India
5. Get DPIIT Recognition
6. Patent and trade mark details(Optional)
7. PAN Number

## Let's Sum Up

When starting a business, registering the entity and obtaining necessary licenses are crucial steps to ensure legal compliance and operational legitimacy. This process involves registering the business with government authorities and acquiring various licenses that allow the business to operate within the legal framework.

## Check Your Progress -QUIZ-1

### 1. Registration of the firm under the Partnership Act:

- a. **Optional**
- b. Obligatory
- c. Compulsory
- d. Necessary

### 2. A firm name shall not contain any of the following words:

- a. Crown, imperial
- b. Emperor, empress
- c. King, queen
- d. **All of the above**

### 3. In case of an unregistered firm the partners can file a suit for the :

- a. Dissolution of the firm
- b. Accounts of dissolved firm
- c. Realization of property of dissolved firm
- d. **All the above**

### 4. The partnership Act by section 69 indirectly renders the registration firm compulsory by providing:

- a. **Certain disabilities**
  - b. Penalties on partners of unregistered firms
  - c. Penalties on unregistered firms
  - d. Monetary fine on partners.
- 5. After the registration of a firm, if a partner tries, such a change in the constitution of the firm requires:**
- a. **A notice to be sent to the Registrar**
  - b. New registration
  - c. An affidavit of a managing partner about the change
  - d. No limitation

#### 4.2- PAN

A permanent account number (in short called as PAN) is a vital document for any taxpayer. It is a 10-character alphanumeric number consisting of letter and digits. PAN card requirements are detailed in the Income Tax Act of 1961. This number is unique to each cardholder and helps identify the income tax payer. It is required for individuals, partnerships and companies. It also serves as an identity proof from a large number of purposes.

Any corporate body doing business in India requires a PAN card whether it is registered in India or abroad. Equally, an individual or entity which is engaged in a business with an Indian firm/entity requires a PAN card. It is also required for anybody who is involved in generating money out of India whether the company is registered, or has a permanent establishment, or an office in India. Given below is a list of the bodies that are required to hold a PAN card in India.

- Body Corporate
- Companies.
- Firms other than LLP
- One Person Company

- LLP Firm
- Sole proprietorship
- Trusts
- Corporations
- Limited Liability companies
- Private firms
- Other Associations
- Foreign Institutional Investors
- Hedge funds

#### 4.2.1- Significance of PAN for Setting up of Business

Some of the reasons confirming the significance of holding a PAN for every business entity is listed below:

- It was made mandatory by the Government of India under the Income Tax Act, 1961. The Act was subsequently amended and Section 206AA, as inserted in 2009 by the Finance Act, now mandates all foreign parties that provide or generate payment to a counterpart in India to provide their PAN. This includes not only individuals but also incorporations, companies, limited companies and any other form of entity. In the absence of the PAN, the Government will charge withholding tax which can be at the rate of more than 30% of the total invoiced payment.

- It serves as a reference number of its holder for the Income Tax Department to track the financial transactions carried out by it. In respect of certain transactions, the person is now required to quote his PAN as also deposit certain income tax documents.

- Even if one is not required to pay income tax, it is mandatory for him to hold a PAN if he is earning money.

- Companies, regardless of whether they are registered abroad or in India, are required to pay tax for businesses carried out in India. Without the PAN, the government has the mandate to deduct tax at the highest

possible rate.

- PAN is required and thus helps an individual to pay for his invoices, remittances, and is also required to be mentioned in the income tax return.
- Just like individuals, companies are required to provide their Tax Registration Number (TRN) to whomever is paying them. A TRN can be obtained only when the company holds a PAN.

#### **4.2.2- Application and Registration of PAN**

The PAN (Permanent Account Number) card is an important document for conducting even the most simplest of financial transactions like opening a savings bank account or applying for a debit/credit card. It is a 10-digit alphanumeric identity allotted by the income tax department to an individual, company or Hindu Undivided Family (HUF).

Earlier, to apply for a PAN, an individual had to fill up physical forms specified by the income tax department (i.e., form 49A for resident individual) and provide supporting documents as proof of identity, address and date of birth.

In the present times, the application for allotment of PAN can be made through internet. Further, requests for changes or correction in PAN data or request for reprint of PAN card (for an existing PAN) may also be made through internet.

Online application can be made either through the portal of NSDL (<https://tin.tin.nsdl.com/pan/index.html>) or the online portal of UTITSL ([https://www.utiitsl.com/UTIITSL\\_SITE/pan/index.html](https://www.utiitsl.com/UTIITSL_SITE/pan/index.html)). With effect from July 1, 2017, fees for PAN application (including Goods and Services Tax) for dispatch outside India has changed to 1020/- INR. However, PAN application fees for dispatch within India is 110/- INR.

Once the application and payment is accepted, the applicant is required to send the supporting documents through courier/post to

NSDL/UTITSL. Only after the receipt of the documents, PAN application would be processed by NSDL/UTITSL.

With effect from April 08, 2012, PAN applications are required to be furnished in the new forms prescribed by ITD. Indian citizens will have to submit their Application for allotment of new PAN' in revised Form 49A only. Foreign citizens will have to submit their Application for allotment of new PAN' in newly notified Form 49AA only.

For New PAN applications, in case of Individual and HUF applicants, if Address for Communication is selected as Office, then Proof of Office Address along with Proof of residential address is to be submitted with NSDL in respect of applications made on and after 1st November 2009.

As per RBI guidelines, the entities making e-commerce transactions are required to enter their PIN (Personal Identification Number) while carrying out an online transaction. Accordingly, before making payment for online PAN/TAN applications using credit/debit card, please ensure that the PIN is obtained from your respective Banks.

## Let's Sum Up

A Permanent Account Number (PAN) is a unique ten-digit alphanumeric identifier issued by the Income Tax Department of India to individuals, companies, and entities. It is mandatory for various financial transactions and serves as a key tool for tracking tax-related information. This concise guide highlights the importance of PAN, the application process, and its significance in various financial and business activities in India.

## Check Your Progress -QUIZ-1

1. are companies created by a special act of the legislature
  - a. Registered company
  - b. Public Ltd company
  - c. Private Ltd company

- d. **Statutory Company**
2. A government company means any company in which not less than 51% of the paid-up share capital is held by
- Central government
  - State government
  - Both a and b**
  - Neither a nor b
3. Application for approval of name of a company is to be made to
- SEBI
  - Registrar of companies**
  - government of India
  - government of the state in which company is to be registered
4. Preliminary contracts are signed
- before the incorporation**
  - after incorporation but before the capital subscription
  - after incorporation but before the commencement of business
  - after commencement of business
5. powers, rights, remuneration, qualification and duties of directors are discussed clearly in
- Memorandum of association
  - Articles of Association
  - Prospectus
  - None of the above

### 4.3- TAN

TAN or Tax Deduction and Collection Account Number is again a 10 digit alphanumeric number required to be obtained by all persons who are responsible for deducting or collecting tax. Under Section 203A of the Income Tax Act, 1961, it is mandatory to quote Tax Deduction and Collection Account Number (TAN) allotted by the Income Tax Department (ITD) on all TDS returns.

Since last few years ITD has revised the structure of TAN. It is a unique 10 digit alphanumeric code. Accordingly, they have issued TAN in this new

format to all existing TAN holders.

To facilitate tax deductors find their new TAN, ITD has now introduced a search facility on their website ([www.incometaxindia.gov.in](http://www.incometaxindia.gov.in)). Through this facility, the tax deductors can search their name with their old TAN to find the new TAN. Deductors are advised to find their new TAN from this site before it is incorporated in their e-TDS return file to avoid any inconvenience at the time of furnishing e-TDS return.

## Types of TAN Applications

**There are two types of TAN applications:**

1. Application for issuance of new TAN (Form 49B): This application form can be used if the deductor/ applicant have never applied for a TAN or does not have a TAN.
2. Application for Change or Correction in TAN data for TAN Allotted.

## Procedure to Apply

A deductor may either make an online application through this website or submit physical TAN Application to any TIN-Facilitation Center (TIN-FC) of NSDL.

Applicants should go through the instructions and guidelines provided in the application form before filling the form.

## Where to get the Physical Application Forms

Applicants may obtain the application forms from TIN-FCs, any other vendors providing such forms or can freely download the same from the website.

## Communication

These applications are digitized by NSDL and forwarded to ITD. ITD will issue the TAN which will be intimated to NSDL online. On the basis of this, NSDL will issue the TAN letter to the applicant.

## Status Track

The applicants may track the status of their TAN application using 14 digit unique Acknowledgment Number after three days of application using the status track facility. Alternatively, applicant may call TIN Call Centre on 020 - 2721 8080 to enquire about the status of their application. The status of the TAN application can also be tracked by sending an SMS - NSDLTAN to 57575.

## Fee

The processing fee for both the applications (new TAN and change request) is 65/- INR (including Goods and Services Tax).

### 4.3.1- GST

Registration of any business entity under the GST Law implies obtaining a unique number from the concerned tax authorities for the purpose of collecting tax on behalf of the Government and to avail Input Tax Credit for the taxes on his inward supplies. Section 22 of Central Goods & Services Tax Act, 2017 mandates that every person who has an aggregate turnover of more than Rs 20 Lacs in the relevant financial year is liable to be registered under the Act. It must be noted though that for the state of Jammu & Kashmir and North-Eastern states, the threshold is Rs 10 Lacs.

The registration under GST is Permanent Account Number (PAN) based and state-specific. GST Identification Number (GSTIN) is a 15-digit number and a certificate of registration, incorporating the GSTIN is made available to the applicant upon registration.

- ❖ The first two digits of this number will represent the state code
- ❖ The next ten digits will be the PAN number of the taxpayer
- ❖ The thirteenth digit will be assigned based on the number of registrations within a state
- ❖ The fourteenth digit will be Z by default
- ❖ The last digit will be for check code

Registration under GST is not tax specific, which means that there is a single registration for all the taxes viz., CGST, SGST/UTGST, IGST and cesses.

### **Compulsory Registration**

In the following cases, registration is made compulsory, irrespective of the aggregate turnover:

- For a supplier who makes inter-state supplies
- Casual taxable person
- Non-resident taxable person
- E-commerce operators
- Persons discharging liabilities under reverse charge mechanism

### **Persons not liable to register**

The following people are not liable to register under the Central Goods & Services Tax Act, 2017:

- Engaged exclusively in the supply of goods / services / both which are not liable to tax
- Engaged exclusively in the supply of goods / services / both which are wholly exempt from tax. Agriculturalist to the extent of supply of produce from land cultivation
- Specified categories as may be notified by the Government

### **4.3.2- Registration under Shops & Establishments**

One of the important regulation to which most businesses in India are subject to is the Shop and Establishment Act, enacted by every state in India. The Act is designed to regulate payment of wages, hours of work, leave, holidays, terms of service and other work conditions of people employed in shop and commercial establishments.

### 4.3.3- Purpose of Shop and Establishment Act

The Shop and Establishment Act in India is promulgated by the state and may slightly differ from state to state. However, as per the Act, all shops and commercial establishments operating within each state are covered by the respective Shop & Establishments Act. Shops are defined as premises where goods are sold either by retail or wholesale or where services are rendered to customers, and includes an office, a store-room, godown, warehouse or workhouse or work place. Establishments are defined as shop, a commercial establishment, residential hotel, restaurant, eating-house, theatre or other places of public amusement or entertainment. Further, establishments as defined by the act may also include such other establishments as defined by the Government by notification in the Official Gazette. However, factories are not covered by the shops & establishments act and are regulated by the Factories Act, 1948.

#### Meaning of an Establishment for the Purpose of the Act

Establishments included in this Act are commercial establishments, residential hotels, restaurants, eating houses, theaters, or other places of public amusement or entertainment. Additionally, other establishments that the State Government may, by notification in the Official Gazette, declare to be an establishment for the purposes of this Act would then classify as establishments.

### 4.3.4- Shop and Establishment Act License

Any shop or commercial establishment that commences operation must apply to the Chief Inspector for a Shop and Establishment Act License within the prescribed time. The application for license in the prescribed form must contain the name of the employer, address of the establishment, name of the establishment, category of the establishment, number of employees and other relevant details as requested. On submission of the application and review by the Chief Inspector, the shop or commercial

establishment will be registered and a registration certificate will be issued to the occupier. The registration certificate must be prominently displayed at the shop or commercial establishment and renewed periodically, as per the act.

#### **4.3.5- Registration of Shops & Establishments**

As a business owner of a shop or establishment, you are compulsorily required to get the same registered under the Shops and Establishment Act. Here are the specific rules:

1. Submit an application in the prescribed form to the Inspector of the area within 30 days of starting any work in your shop/establishment. The application is to be submitted along with the prescribed fees and should contain the following information:
  - a. Your name as the employer and the name of a manager, if any;
  - b. The postal address of your establishment;
  - c. The name of your establishment;
  - d. Such other particulars as may be prescribed.
2. Upon receiving the application for registration and the fees, the Inspector shall verify the accuracy and correctness of the application. Once suitably satisfied, he shall enter the details in the Register of Establishments and issue a registration certificate of your establishment to you. This certificate will be valid for 5 years and has to be renewed thereafter.

#### **4.3.6- SSI/MSME**

Small Scale and ancillary units should seek registration with the Director of Industries of the concerned State Government.

All classes of enterprises, whether Proprietorship, Hindu undivided family, Association of persons, Co-operative society, Partnership firm, Company or Undertaking, by whatever name called can apply for the registration and get qualified for the benefits provided under the Act.

The main purpose of Registration is to maintain statistics and maintain a roll of such units for the purposes of providing incentives and support services. States have generally adopted the uniform registration procedures as per the guidelines. However, there may be some modifications done by States. It must be noted that small industries is basically a state subject. States use the same registration scheme for implementing their own policies. It is possible that some states may have a 'SIDO registration scheme' and a 'State registration scheme'.

#### **4.3.7- Objectives of the Registration Scheme**

- To enumerate and maintain a roll of small industries to which the package of incentives and support are targeted.
- To provide a certificate enabling the units to avail statutory benefits mainly in terms of protection.
- To serve the purpose of collection of statistics.
- To create nodal centres at the Centre, State and District levels to promote SSI. Benefits of SSI/MSME Registration

Under this registration scheme, the units normally get registered to avail some benefits, incentives or support given either by the Central or State Govt. Benefits available under the MSMED Act Registration of Micro, Small and Medium (MSM) Enterprises under MSMED Act is a very powerful medium to enjoy the regime of incentives offered by the Centre generally contains the following:

#### **Micro and Small Enterprises:**

1. Easy finance availability from Banks, without collateral requirement
2. Protection against delay in payment from Buyers and right of interest on delayed payment
3. Preference in procuring Government tenders,
4. Stamp duty and Octroi benefits,
5. Concession in electricity bills

6. Reservation policies to manufacturing / production sector enterprises
7. Time-bound resolution of disputes with Buyers through conciliation and arbitration
8. Reimbursement of ISO Certification Expenses
9. Credit prescription (Priority sector lending), differential rates of interest etc.
10. Excise Exemption Scheme
11. Exemption under Direct Tax Laws.
12. Financial Assistance for setting up testing facilities through NSIC
13. Statutory support such as reservation and the Interest on Delayed Payments Act.
14. Subsidy on ISO Certifications
15. Subsidy on NSIC Performance and Credit ratings
16. Participation in Government Purchase registrations
17. Registration with NSIC
18. Counter Guarantee from Government of India through CGSTI
19. Waiver in Earnest Money (Security Deposit) in Government tenders
20. Stamp duty and Octroi benefits,
21. 15% weight age in price Preference.
22. Reduction in rate of Interest from banks (Subject to ratings)
23. Free of cost government tenders

#### **4.3.8- Registration Process**

- Micro & Small Enterprises shall have to apply either online at the website of NSIC [www.nsicspronline.com](http://www.nsicspronline.com) or on the prescribed application form (in duplicate) along- with requisite fee and documents to the Zonal/Branch/Sub Branch and Sub Office/Extension office of NSIC situated nearest to their location.

- Duplicate copy of the G.P. Registration Application Form submitted by the Micro & Small Enterprise will be forwarded to the concerned Inspecting agency along with copies of required documents and requisite Proofs/Draft/Pay Order of inspection charges in favor of concerned Inspection Agency requesting for carrying out the Technical Inspection of Micro & Small Enterprise and forward their recommendations in this regard.

- After receiving Inspection Report, NSIC will issue the GP Registration Certificate to Micro & Small Enterprise for items/stores as recommended.

### **Procedure for calculation & fixation of Monetary Limits of Micro & Small Enterprises.**

Monetary limit of the company is fixed on the basis of the unit's net sales turnover during the last three years reflected in the Audited Balance Sheets. Monetary limit will be fixed on the basis of highest turnover during the last three year which may or may not be of last year provided the units installed and operating capacity has not been reduced.

- In case there is no decrease in plant and machinery, than 50% of highest turnover during the last 3 years reflected in audited balance sheet will be the basis for fixation of monetary limit.

- In case there is decrease in plant and machinery for more than 10%, the following will be considered:

- i. Where the turnover of the Enterprise has steadily increased over the last three years and the unit is in profit continuously, the Monetary Limit may be fixed at 50% of net sales turnover achieved in the last year.
- ii. In case the Company/Partnership concern/Proprietorship unit is in loss for one year out of past three years, their monetary limit will be fixed at 40% of their average net sales turnover.
- iii. Similarly, when the Micro & Small Enterprise is in loss for two years out of the past three years, the monetary limit will be accordingly fixed at 30% of their average net sales turnover of the past three years.
- iv. In the event of Micro & Small Enterprise being in loss throughout past three years, the monetary limit of the Unit will

be fixed at 20% of the average net sales turnover of the Unit during the past three years.

#### **4.3.9- Clearance from Pollution Control Board**

Every state board is the authority to secure this form of NOC Pollution Control Board. A manufacturer would require getting the Consent to Operate (CTO) and Consent to Establish (CTE). Once the consent period expires, it is essential to renew the Consent to Operate from the Pollution Control Board. Such consent is required in order to ensure that the institution or the industry is operating properly. Such consent would also ensure that the pollutants are not emitted as per the required amounts.

##### **NOC Pollution Control Board-An Overview**

CTO (Consent to Operate) is required for running an industry dealing with pollutants and hazardous wastes. Therefore it is crucial to renew the licence for consent to operate from NOC Pollution Control Board. There is a separate CTO for different forms of industries. Such industries would include the water and the air industry. Usually the requisite consent to operate from the NOC pollution control board is obtained under the Water Act, 1974 and Air Act, 1981. Apart from this the industry must comply with the rules related to authorisation under the Hazardous & Other Waste (Management & Trans boundary Movement) Rules, 2016.

The manufacturer has to go to the requisite NOC pollution control board in order to secure this form of consent to operate. However, any form of manufacturing industry or any other commercial establishment would also require securing this consent to operate before starting operations.

If the above consent expires after a particular period of time, then the entrepreneur has to mandatorily file the renewal of the NOC pollution control board. Under different forms of environmental laws, Consent to Operate (CTO) is required for production and manufacturing activities. To secure consent to operate licence, the proprietor of the industry must submit the required permits with the fees and the CTO FORM.

## Types of NOC Pollution Control Board

There are two forms of clearance as required by the requisite pollution control board

### Consent to Establish

Consent to Establish is known as the CTE. This form of consent is required from the authority in order to establish or carry out any manufacturing industries. This is something related to the primary permission from the requisite authority to operate any form of air/water or noise pollution industry.

### Consent to Operate

The second form of consent is known as the consent to operate (CTO). This consent would be required in order to ensure that the industry is maintaining standards related to operation. All industries require this form of consent to operate.

## 4.3.10- FSSAI Registration

FSSAI registration is required for all petty food business operators.

Petty food business operator is any person or entity who:

- ❖ Manufactures or sells any article of food himself or a petty retailer, hawker, itinerant vendor or temporary stall holder; or
- ❖ Distributes foods including in any religious or social gathering except a caterer; or
- ❖ Other food businesses including small scale or cottage or such other industries relating to food business or tiny food businesses with an annual turnover not exceeding Rs 12 lakhs and whose:
  - Production capacity of food (other than milk and milk products and meat and meat products) does not exceed 100 kg/ltr per day or
  - Procurement or handling and collection of milk is up to 500 litres of milk per day or
  - Slaughtering capacity is 2 large animals or 10 small animals or 50 poultry birds per day or less.

Petty food business operators are required to obtain a FSSAI registration by submitting an application for registration in Form A. On submission of a FSSAI registration application, the registration should be provided or application rejected in writing within 7 days of receipt of an

application by authority.

FSSAI registration certificate contains the details of registration and a photo of the applicant. The certificate must be prominently displayed at the place of food business, at all times while carrying on the food business.

#### **4.3.11- Trade mark**

The Trade Marks Registry was established in India in, 1940 and presently, it administers the Trade Marks Act, 1999 and the rules framed there under. It acts as a resource and information Centre and is a facilitator in matters relating to trade marks in the country. The objective of the Trade Marks Act, 1999 is to register trademarks applied for in the country and to provide for better protection of trade mark for goods and services and also to prevent fraudulent use of the mark. The main function of the Registry is to register trademarks which qualify for registration under the Act and Rules.

#### **4.3.12- Copy right**

The Copyright Act, 1957 came into effect from January 1958. This Act has been amended five times since then, i.e., in 1983, 1984, 1992, 1994, 1999 and 2012. The Copyright (Amendment) Act, 2012 is the most substantial. The main reasons for amendments to the Copyright Act, 1957 include to bring the Act in conformity with WCT and WPPT; to protect the Music and Film Industry and address its concerns; to address the concerns of the physically disabled and to protect the interests of the author of any work; Incidental changes; to remove operational facilities; and enforcement of rights. Some of the important amendments to the Copyright Act in 2012 are extension of copyright protection in the digital environment such as penalties for circumvention of technological protection measures and rights management information, and liability of internet service provider and introduction of statutory licences for cover versions and broadcasting organizations; ensuring right to receive royalties for authors, and music composers, exclusive economic and moral rights to performers, equal membership rights in copyright societies for authors and other right owners and

exception of copyrights for physically disabled to access any works.

Copyright; grant of compulsory licences in the matter of work withheld from public; to publish or republish works (in certain circumstances); to produce and publish a translation of a literary or dramatic work in any language; licence for benefit of disabled; grant statutory licence for cover versions; grant of statutory licence for broadcasting literary and musical works and sound recordings; registration of copyright societies and copyright registration.

#### **4.3.13- Copy right Registration Procedure**

The procedure for registration is as follows:

- a. Application for registration is to be made on as prescribed in the first schedule to the Rules
- b. Separate applications should be made for registration of each work
- c. Each application should be accompanied by the requisite fee prescribed in the second schedule to the Rules
- d. The applications should be signed by the applicant or the advocate in whose favor a Vakalatnama or Power of Attorney has been executed. The Power of Attorney signed by the party and accepted by the advocate should also be enclosed.

#### **4.3.14- Patent**

Patent filing has become increasingly popular in India due to the rising intellectual property rights awareness and Startup India Action Plan. In the Startup India Action Plan, eligible startups would receive an 80% rebate in patent filing fee to provide a boost to patent registered by Indian companies. Hence, there is tremendous interest amongst startups for obtaining patent registration and in this article, we look at the documents required for patent registration in India.

#### **4.3.15- Filing Patent Application**

While filing a patent application, provisional specifications or complete specifications can be filed by the applicant. The following is a list containing all documents that must be filed for obtaining patent registration:

**• Patent application in Form-1.**

- a. Proof of right to file application from the inventor. The proof of cite can either be an endorsement at the end of the application or a separate agreement attached with the atent application.
- b. Provisional specifications, if complete specifications are not available.
- c. .Complete specification in Form-2 within 12 months of filing of provisional specification.
- d. Statement and undertaking under Section 8 in Form- 3, if applicable. Form 3 can be filed along with the application or within 6 months from the date of application.
- e. Declaration as to inventor ship in Form 5 for applications with complete specification or a convention application or a PCT application designating India. Form-5 or Declaration as to inventor ship can be filed within one month from the date of filing of application, if a request is made to the Controller in Form-4.
- f. Power of authority in Form-26, if patent application is being filed by a Patent Agent. In case a general power of authority, then a self-attested copy of the same can be filed by the Patent Agent or Patent Attorney.

Priority document must be filed in the following cases:

- (i) Convention Application (under Paris Convention).
- (ii) PCT National Phase Application wherein requirements of Rule 17.1(a or b) of has not been fulfilled.
- (iii) Note: Priority document must be filed along with the application or before the expiry of eighteen months from the date of priority, to enable early publication of the application.

• If the Application pertains to a biological material obtained from India, the applicant is required to submit the permission from the National Biodiversity Authority any time before the grant of the patent. However, it is sufficient if the permission from the National Biodiversity Authority is submitted

before the grant of the patent.

- The Application form should also indicate clearly the source of geographical origin of any biological material used in the specification.
- All patent applications must bear the signature of the applicant or authorized person or Patent Attorney along with name and date.
- Provisional or complete specification must be signed by the agent/applicant with date on the last page of the specification. The drawing sheets attached should also contain the signature of an applicant or his agent in the right hand bottom corner.

#### **4.3.16- Design**

The objective of The Designs Rules, 2001 is to enable protection of newly created designs applying to particular articles manufactured by the industrial process. It refers in legal definition to:

- Any mode or principle of construction or anything which is in substance merely mechanical device;
- Any trademark which is a registered trade mark indicating connection in course of trade between the goods and some person having the right, either as proprietor or as registered user, to use the mark;
- Any trademark which denotes the ownership of moveable property belonging to particular person; and
- Any trademark which is a painting, sculpture, drawing, an engraving or photograph or any work of architecture or any other work of artistic craftsmanship.

#### **4.3.17- Design Registration**

An application for the registration of design should be submitted along with four specimen copies of the design. A statement of novelty should too be submitted which refers to a statement of how the design is unique. Additional copies of the specimen design may be included. The design so

represented in the representation of the design' submitted should be precisely similar to the design or exact copies of the design. The reciprocity application submitted in the UK or a convention country or group of countries or an intergovernmental organization means can be made with additional copies of the design according to rule 30. The Controller may or may not accept the registration of design. A statement of objections may be made by the controller to the applicant with necessary amendments. The date on which the controller's decision is dispatched is deemed as the date of appeal. Any applicant not completely and verifiably filed will be abandoned by the Controller. The particulars of the application and the representation of the article may be published in the Official Gazette.

## Let's Sum Up

This comprehensive guide provides an overview of essential registrations and licenses required for operating a business legally and efficiently. This topic covers various types of registrations and licenses required for different business entities, highlighting their significance, application procedures, and compliance requirements. This unit provides a comprehensive overview of various registrations and licenses essential for starting and operating a business. This unit provides a comprehensive overview of essential registrations and licenses required for starting and operating a business.

## Check Your Progress - QUIZ - 1

- 1 Which of the following Act is replaced with the Direct Tax Code(DTC)?
  - a. **The Income Tax Act, 1961.**
  - b. The Central Sales Act, 1956
  - c. The Central Exercise Act, 1944
  - d. The Central Goods and Services Act, 2017
- 2 Which of the following is an example of direct tax?
  - a. Custom duty
  - b. Excise tax

- c. **Personal Income Tax**
  - d. GST
- 3** GST was introduced in India with effect from
- a. 1.1.2017
  - b. 1.4.2017
  - c. 1.1.2018
  - d. **1.7.2017**
- 4** Which of the following is a micro-finance programme?
- a. Local village Bank.
  - b. **Self- Help Group**
  - c. Purvanchal Bank
  - d. Utkal Gramin Bank
- 5** The national board for Micro, Small and Medium Enterprises meet once every \_months in a year.
- a) **6**
  - b) 2
  - c) 3
  - d) 4

## 4.4 UNIT SUMMARY

Registration and licenses are fundamental for establishing and operating a business legally. This unit covers various types of registrations and licenses required for different business entities, highlighting their significance, application procedures, and compliance requirements. This unit provides a comprehensive overview of various registrations and licenses essential for starting and operating a business. It covers: the process and importance of business entity registration. Mandatory registrations like PAN, GST, TAN, and others. Sector-specific licenses such as FSSAI, pollution control clearance, and MSME registration. Intellectual property registrations including trademarks, patents, and designs. Understanding and complying with these requirements ensure legal operation and smooth functioning of the business.

## 4.5 Glossary

Registration and Licenses	Registration and licenses are crucial for the legal establishment and operation of a business. They ensure compliance with regulatory requirements and provide legitimacy to business activities. This section outlines the various types of registrations and licenses required, their significance, and the procedures to obtain them
PAN (Permanent Account Number)	Unique ten-digit alphanumeric identifier issued by the Income Tax Department.
GST (Goods and Services Tax)	Comprehensive indirect tax on manufacture, sale, and consumption of goods and services.
Online Linking	Link PAN with Aadhaar through the Income Tax Department's e-filing portal.
Certificate of Incorporation	Legal document issued by ROC confirming the formation of a company.

## 4.6 Self-Assessment Questions

### Short Answers

#### Sl. no      Questions

- 1            Explain PAN
- 2            What are the procedure of copy right?

#### Essay Type

#### Sl .no      Questions

- 1            Explain GST
- 2            Explain TAN
- 3            Explain MSME
- 4            Explain the benefits of Business Collaboration.

## 4.7. Activities/Exercises/Case Studies

1	Analyze the journey of a successful startup from its inception to becoming a registered business entity. Focus on the challenges faced and solutions implemented during the registration process.
2	Case study on the implementation and impact of linking PAN with Aadhaar. Discuss the benefits, challenges, and compliance requirements for individuals and businesses.
3	Case study of a mid-sized company detailing the process of obtaining TAN, its relevance, and the compliance activities involved in maintaining TAN.
4	Evaluate the benefits received by an MSME-registered business. Discuss the registration process and how the registration has helped the business in terms of subsidies, financial support, and growth opportunities.
5	Case study on a manufacturing company's experience with obtaining clearance from the Pollution Control Board. Discuss the environmental compliance measures adopted and the impact of clearance on business operations.

#### 4.9 Suggested Readings/ References

1. The Water (Prevention and Control of Pollution) Act, 1974, Bare Act, 2022 Edition, Universal/LexisNexis, Noida.
2. Kailash Thakur, (2007) "Environment Protection Law and Policy in India", 2<sup>nd</sup> Edition, Deep & Deep Publication Pvt. Ltd., New Delhi.
3. Avtar Singh, (2015), "Intellectual Property Law", Eastern Book Company, Bangalore
4. Zad N.S and Divya Bajpai, (2022) "Setting up of Business Entities and Closure" (SUBEC), Taxmann, Chennai

## UNIT V: ENVIRONMENTAL LEGISLATION IN INDIAN

Geographical Indication of Goods (Registration and Protection) Act, 1999: Objectives, Salient Features - The Environmental Protection Act, 1986: Prevention, control and abatement of environmental pollution - The Water (Prevention And Control of Pollution) Act, 1974: The Central and State Boards for Prevention and Control of Water Pollution - Powers and Functions of Boards - Prevention and Control of Water Pollution - Penalties and Procedure- The Air (Prevention and Control of Pollution) Act, 1981: Central and State Boards for The Prevention and Control of Air Pollution - Powers And Functions - Prevention and Control of Air Pollution - Penalties and Procedure.		
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In this unit, learners should have a comprehensive understanding of key environmental legislations in India, including their objectives, features, and enforcement mechanisms. They should be able to explain the roles of various boards and authorities in pollution control and understand the legal consequences of violating these environmental laws. To effectively cover the topic of "Environmental Legislations in India" with a focus on specific acts, learners should aim to achieve the following objectives:

- Understand the Geographical Indication of Goods (Registration and Protection) Act, 1999
- Comprehend the Environmental Protection Act, 1986
- Understand the Water (Prevention and Control of Pollution) Act, 1974
- Understand the Air (Prevention and Control of Pollution) Act, 1981

### 5.1.1- Geographical Indication- Meaning

A geographical indication (GI) is a sign used on products that have a specific geographical origin and possess qualities, reputation, or characteristics that are essentially attributable to that place of origin. GIs are typically used for agricultural products, food stuffs, wine, handicrafts, and industrial products. They provide legal protection to producers of these goods and help consumers identify and differentiate products based on their geographical origin and associated qualities.

To qualify for a geographical indication, a product must have a strong link

to its geographical origin, which can include factors such as natural conditions, traditional production methods, or specific expertise of producers in that region. Examples of products with geographical indications include Champagne (France), Parmigiano- Reggiano cheese (Italy), Darjeeling tea (India), and Scotch whisky (Scotland).

Legal frameworks for protecting geographical indications vary from country to country, but they generally involve registering the GI with relevant authorities and establishing regulations to govern its use. The goal is to prevent unauthorized producers from using the geographical indication and to maintain the reputation and quality associated with products from that specific region

### 5.1.2- Objectives

The objectives of establishing geographical indications (GIs) for goods are multifaceted and serve various stakeholders, including producers, consumers, and governments. Here are some key objectives:

- 1. Protection of Reputation and Quality:** GIs safeguard the reputation and quality associated with products originating from specific geographical areas. This protection ensures that consumers receive authentic and high-quality goods, thereby maintaining consumer trust and satisfaction.
- 2. Promotion of Rural Development:** GIs can contribute significantly to rural development by providing economic opportunities for producers in specific regions. By highlighting the unique characteristics of products from these areas, GIs can enhance the market value of local agricultural and artisanal goods, leading to increased income and employment opportunities for rural communities.
- 3. Preservation of Cultural Heritage and Traditional Knowledge:** GIs play a crucial role in preserving traditional production methods, cultural heritage, and indigenous knowledge associated with the production of goods in specific regions. By recognizing and protecting these traditional practices, GIs help maintain the cultural identity and diversity of rural communities.

**4. Market Differentiation and Competitive Advantage:** GIs enable producers to differentiate their products in the marketplace based on their unique geographical origin and associated qualities. This differentiation can provide a competitive advantage in both domestic and international markets, as consumers often perceive products with GIs as premium or superior in quality.

**5. Prevention of Misuse and Fraud:** Establishing legal protection for GIs helps prevent unauthorized producers from misleading consumers by falsely claiming the geographical origin of their products. By enforcing regulations on the use of GIs, authorities can combat counterfeiting, imitation, and other forms of misuse, thereby ensuring fair competition and consumer protection.

**6. Sustainable Development:** GIs often promote environmentally sustainable practices by encouraging producers to adhere to traditional, region-specific production methods that are often more environmentally friendly. Additionally, the economic stability provided by GIs can incentivize producers to adopt sustainable agriculture and production practices to preserve the long-term viability of their local ecosystems.

**7. Enhanced Tourism and Regional Development:** GIs can also contribute to the development of tourism in regions known for their unique products. Tourists are often attracted to areas renowned for their culinary specialties, traditional crafts, and cultural heritage associated with GI products, leading to increased revenue and infrastructure development in these regions.

### 5.1.3- Features

Geographical indications (GIs) of goods possess several distinctive features that distinguish them from other types of product designations. These features include:

**1. Geographical Origin:** GIs are inherently tied to a specific geographical area, such as a region, town, or even a particular locality within a region. The unique qualities and characteristics of the product are attributed to the geographical environment in which it is produced.

**2. Quality and Reputation:** GIs are associated with products that have a reputation or certain quality attributable to their geographical origin. This reputation may stem from factors such as traditional production methods, specific climatic conditions, or unique local resources.

**3. Distinctiveness:** GIs highlight the unique attributes of products originating from a particular geographical area. These attributes can include taste, aroma, texture, and other qualitative aspects that set the product apart from similar goods produced elsewhere.

**4. Traditional Knowledge and Expertise:** GIs often reflect the traditional knowledge, skills, and expertise of producers within the designated geographical area. This knowledge is passed down through generations and contributes to the authenticity and uniqueness of the product.

**5. Consumer Trust and Assurance:** Products bearing a GI provide consumers with assurance regarding the authenticity and quality of the goods. Consumers trust that products labeled with a GI genuinely originate from the specified geographical area and meet certain standards or specifications.

**6. Legal Protection:** GIs typically receive legal protection to prevent unauthorized use of the geographical indication by producers outside the designated area. This protection helps safeguard the reputation and integrity of the product and ensures fair competition in the market place.

**7. Economic Value:** GIs can create economic value for producers by differentiating their products in the market and commanding premium prices. The recognition and protection of the geographical indication contribute to the economic development of the region by promoting local industries and supporting rural livelihoods.

**8. Cultural Heritage:** GIs often embody cultural heritage and traditions associated with the production of goods in specific regions. They contribute to the preservation of cultural identity and heritage, fostering a sense of pride and belonging within local communities.

**9. Sustainable Practices:** GIs may promote sustainable agricultural and production practices that are tailored to the environmental conditions of the

geographical area. This focus on sustainability helps preserve natural resources and ecosystems while ensuring the long-term viability of local industries.

**10. Tourism and Regional Development:** GIs can attract tourists interested in exploring the unique culinary, cultural, and artisanal offerings of a particular region. This tourism potential contributes to regional development, stimulating economic growth and infrastructure development in the area.

#### **5.1.4- Environment Protection Act of 1986**

- The Environment Protection Act of 1986 is a legislative enactment of the Indian Parliament. Enacted in May 1986, it came into force on November 19, 1986, comprising 26 parts and four chapters.
- Widely considered a reaction to the Bhopal gas tragedy, this Act was promulgated by the Government of India under the authority granted by Article 253 of the Indian Constitution.
- This constitutional provision empowers the central government to formulate to implement international agreements entered into by the country.

#### **5.1.5- Objectives of the Act**

- Implementing the pivotal resolutions on environmental safety and protection formulated at the United Nations Conference on the Human Environment in Stockholm in June 1972.
- Establishing new authorities dedicated to safeguarding and enhancing the environment, while also coordinating the efforts of existing agencies established under prior legislation.
- Imposing stringent and dissuasive penalties on individuals or entities causing harm to the safety and health of the natural environment.
- Fostering the formulation of subordinate and delegated laws addressing environmentally sensitive issues and promoting environmental protection.

- Encouraging sustainable development by achieving a harmonious equilibrium between overall progress and the conservation of the environment

### 5.1.6- Prevention, Control and Abatement of Environmental Pollution

Section 7 of this Act mentions that no person in the country shall carry out any pursuit in which there is a large emission of gases or other jeopardising substances which may lead to the environment getting polluted. It also provides for certain benchmarks that ought to be maintained. This is to be done by allowing no person to damage the environment and if at all a person is found guilty of fostering damage to the environment by polluting then the polluter pays principle will follow. In such cases, the offender can be asked for „exemplary damages“ .

Then Ext section says that any person who is handling the hazardous substance must comply with the procedural safeguards and guidelines. If the emission is huge or is apprehended so through an accident, the person concerned along with the in-charge is obliged to minimize the environmental pollution.

Further, the persons must also intimate the higher authorities about it and must fully assist the authorities if called upon. And on receipt of any information, the concerned authorities should take remedial measures as early as possible to curb on the spread of environmental pollution.

- 1. Pollution Prevention Measures:** Environmental protection acts often include provisions requiring industries and individuals to take proactive measures to prevent pollution at its source. This may involve implementing cleaner production technologies, adopting sustainable practices, and promoting resource efficiency to minimize environmental impacts.
- 2. Emission Standards and Limits:** Regulations establish emission standards and limits for various pollutants ,including air emissions, water discharges, and hazardous substances. These standards set maximum

allowable levels of emissions to control pollution and protect environmental quality.

**3. Permitting and Regulatory Compliance:** Provisions require businesses and activities that generate pollution to obtain permits and comply with regulatory requirements. Permitting processes typically include conditions to control emissions, waste management, and other environmental impacts, ensuring that activities are conducted in an environmentally responsible manner.

**4. Pollution Control Technologies and Practices:** Environmental protection acts may mandate the use of pollution control technologies and practices to reduce emissions and mitigate environmental impacts. This can include requirements for installing pollution control devices, implementing pollution prevention plans, and adopting best management practices to minimize pollution.

**5. Environmental Impact Assessment (EIA):** Some environmental protection acts require the completion of Environmental Impact Assessments (EIAs) for proposed projects or activities with the potential to cause significant environmental harm. EIA evaluate the potential environmental effects, identify mitigation measures, and inform decision-making to prevent or minimize adverse impacts.

**6. Waste Management and Recycling:** Regulations govern the proper management, treatment, and disposal of various types of waste, including hazardous waste, solid waste, and wastewater. Provisions promote waste minimization, recycling, and the adoption of sustainable waste management practices to reduce environmental pollution.

**7. Monitoring and Reporting Requirements:** Provisions may require businesses and facilities to monitor their emissions, waste discharges, and environmental performance regularly. This includes reporting data on pollution levels, compliance with regulatory standards, and implementation of pollution control measures to ensure transparency and accountability.

**8. Enforcement and Compliance Assurance:** Environmental protection acts establish enforcement mechanisms to ensure compliance with regulatory requirements and hold polluters accountable for violations. This may involve inspections, enforcement actions, penalties, and other measures to deter non-compliance and promote environmental responsibility.

**9. Public Participation and Awareness:** Provisions promote public participation in environmental decision-making processes and raise awareness about environmental issues. This includes opportunities for public input on proposed projects, access to environmental information, and education campaigns to encourage sustainable behavior and community engagement.

**10. Research and Innovation:** Some environmental protection acts allocate funding for research, innovation, and technology development to support pollution prevention, control, and abatement efforts. This promotes the development and adoption of innovative solutions to environmental challenges and fosters continuous improvement in environmental management practices.

### 5.1.7- Penalty and Offences

Section 15 provides for imprisonment up to five years, with fine which may extend to the term of one lakh rupees, or both. And incase isolation continues for one year, the punishment can extend up to seven years. But there is a provision that if any offence is punishable under this Act and also under any other Act, then the person shall not be punished under this Act, but only the other Act.

Section 16 deals with the offences committed by companies and lays down the principle of vicarious liability. This makes the person in charge such as the director, manager or secretary etc. liable for the offence committed by any company. An exception is a case when the offence is committed without the knowledge of the person in charge or if he has taken diligent care to prevent the commission of the offence.

### 5.1.8 Water (Prevention and Control of Pollution) Act Was Enacted In 1974

The Water (Prevention and Control of Pollution) Act was enacted in 1974 to provide for the prevention and control of water pollution, and for the maintaining or restoring of wholesomeness of water in the country. The Act was amended in 1988. The Water (Prevention and Control of Pollution) Cess Act was enacted in 1977, to provide for the levy and collection of a cess on water consumed by persons operating and carrying on certain types of industrial activities. This cess is collected with a view to augment the resources of the Central Board and the State Boards for the prevention and control of water pollution constituted under the Water (Prevention and Control of Pollution) Act, 1974. The Act was last amended in 2003.

### Let's Sum Up

By understanding and complying with these acts, businesses and individuals can contribute to sustainable development and the preservation of cultural and environmental heritage.

### Check Your Progress - QUIZ - 1

1. What is the primary objective of the Geographical Indication of Goods (Registration and Protection) Act, 1999?
  - a) To provide patents for new inventions
  - b) To protect the interests of producers of goods with unique geographical origins**
  - c) To regulate import and export of goods
  - d) To establish environmental standards
2. Which authority is responsible for the registration and administration of Geographical Indications (GIs)?
  - a) The Patent Office
  - b) The Registrar of GIs**
  - c) The Ministry of Commerce
  - d) The Central Pollution Control Board

3. For how many years is a Geographical Indication registration initially valid under the Act?
  - a) 5 years
  - b) **10 years**
  - c) 15 years
  - d) 20 years
4. Which of the following is NOT a reason for the prohibition of GI registration under the Act?
  - a) Likely to deceive or cause confusion
  - b) Contrary to law
  - c) **Used for a century**
  - d) Hurts religious susceptibilities
5. What does the Act provide for the unauthorized use of registered GIs?
  - a) It is considered a patent infringement
  - b) It is considered a trademark infringement
  - c) It is considered a copyright infringement
  - d) **It is considered a GI infringement and subject to legal action**

## 5.2- Powers and Functions of Central and State Boards For Prevention and Control of Water Pollution

1. A full time Chairman (to be nominated by the Central Government) having knowledge or practical experience in matters related to environmental protection or having knowledge and experience in administration of institutions dealing with aforesaid matters.
2. Not more than five officials nominated by the Central Government.
3. Not more than five persons nominated by the Central Government from amongst the members of State Boards.
4. Not more than three non-officials nominated by the government to represent interests of agriculture, fishery, agriculture-trade etc.
5. Two persons nominated by the government to represent the

companies or corporations owned by the Central Government.

6. One full time Member-Secretary (to be appointed by the Central Govt.) having knowledge and experience of scientific engineering or management aspects of pollution control.

### **Constitution of State Boards**

Under Section -4, of the State Pollution Control board may be constituted having the same constitution as the central Board.

### **Constitution of Committees**

According to section-9, a board may constitute as many committees as necessary. The members of a committee shall be paid such fees and allowances for attending to any other work of the board.

### **Constitution of Joint Boards**

According to see section-13 of the Act, under agreement between two or more contiguous states, joint boards may be constituted for those states, by the central or state governments.

### **Terms and Service Conditions of the Members of The Board**

1. Terms and service conditions of the Member Secretary and Chairman shall be as prescribed by the Government.
2. Rest of the members shall hold office for a term of three years.
3. A member shall be eligible for renomination.
4. Central or State Government may remove a member of the Central or State Board at any time by giving him reasonable notice and opportunity.
5. The Chairman may resign by addressing his resignation to the government and a member may resign by addressing his resignation to the Chairman.
6. In the case of insolvency, unsound mind, conviction for the offence under this Act, conviction for the offence involving moral turpitude, inability to attend three consecutive meetings, abusing position as member of the Board, Partnership with anybody dealing with sewage or

trade effluent etc., are some conditions for disqualification of the member. Seat of the disqualified member shall fall vacant and a person nominated to fill such a vacancy shall hold office for the remaining term.

### **5.2.1- Functions of the Central Board**

1. To promote cleanliness of streams and wells in different areas of the state.
2. To advise the Central Govt. On matters concerning the prevention and control of water pollution.
3. To co-ordinate the actions of the State Board and resolve disputes among them.
4. To provide technical assistance and guidance to the State Boards to carry out research in prevention and control of water pollution problems.
5. To organize training of persons engaged in pollution control.
6. To organise comprehensive programme for pollution control through mass media.
7. To lay down standards for streams or wells.
8. To prepare manuals, codes or guides for treatment and disposal of sewage and trade effluents.
9. To establish or recognise laboratories for analysis of water samples from any stream, well or trade effluents.

### **5.2.2- Functions of the State Board**

According to Section-17, the following are the functions of the State Board:

1. Planning a comprehensive programme for prevention, control and abatement of pollution of streams and wells.
2. Advising the State Government regarding water pollution control or location of industries.
3. Conducting and encouraging investigations and research relating to different aspects of water pollution.
4. To collaborate with the Central Board for training personnel for handling water pollution programmes and organizing related mass education

programmes.

5. Inspecting trade effluents and waste water treatment plants.
6. Prescribing effluent standards for these waste and trade effluents.
7. Evolving economical and reliable methods of disposal, treatment and reuse of waste water (in agriculture).
8. Laying down the standards of treatment of sewage and trade effluents to be discharged in to any stream.
9. Making, varying or revoking any order for preservation or control of discharge of waste into streams and wells or construction of systems for disposal of effluents.
10. Establishing or recognising laboratories for analysis of samples.
11. Performing such functions as may be trusted by Central Board or State governments.

### **5.2.3- Steps to Prevent Water Pollution/Ways to Reduce Water Pollution**

Highly contaminated water coming out from the industries and their leftover chemical residues, etc is also discharged into the river through drains. Waste generated, due to daily activities of the people living in the houses, are also thrown into the rivers which leaves the river's water highly polluted. If we have to control water pollution, we will have to find out a way out, and devise laws and strategies.

#### **Enforcing Laws to Prevent Water Pollution**

##### **We should strictly follow all the laws regarding water pollution**

The legislative provisions, such as the Water Act 1974 and Control of Pollution Prevention and Environmental Protection Act 1986 are there but these have not been implemented effectively and so we will have to get these implemented strictly for effective prevention of water pollution. Water Cess Act 1977 is another important law which aims to reduce and prevent water pollution; however, its effects have been limited. Apart from the laws, creating awareness about the impacts of water pollution is required. Through

public awareness and effective implementation of established laws, water pollution can be reduced very effectively.

### **1. Industries should be have more responsibly**

Many industries directly flow their waste everywhere which reaches rivers through rain water. To prevent water pollution from industrial wastes, it is required that these wastes should be disposed of properly. Some industries follow this rule, and they either destroy the remaining material, or re-use it safely. In addition to applying these methods, industries are required to bring about changes into their methods of manufacturing to prevent water pollution. But not all the industries are following these norms. Most of them throw their wastes into the rivers which is a dangerous scenario as far as water pollution is concerned, as all these wastes finally affected the water animals as well as the humans.

### **2. Avoiding hazardous material**

It is also extremely important to adopt the correct methods of the disposal of toxic wastes. In the places where paints, cleaning and stain removal chemicals are used, it is required to arrange for the safe disposal of the wastes and the contaminated water coming out of these factories. Oil spill from cars, other vehicles and the machines are required to be stopped completely.

Oil leak from the cars and other machines have posed bigger threat and these have become major contributors for water pollution. So, it is important to take care of cars and machines. Oil leak from the factories are also required to be stopped after the completion of the work in factories. These factories are required to apply all the ways for the safe disposal and clearance of the oil.

### **3. Cleaning of drains**

To prevent water pollution, the drains are required to be cleaned on a regular basis. In the rural areas, pucca drains are required to be made, because the water is going everywhere in a chaotic manner; it finally reaches the rivers and canals with tons of garbage and pollutants. We

should develop a technology to keep the drains away from the water sources.

#### **4. Recycling and Reuse of water**

Re-cycling and re-use are other ways to prevent water pollution which can improve the availability of freshwater. The use of low quality water, such as treated wastewater in the industries and for washing utensils and gardening makes the fresh water less contaminated. Such water can also be used for washing vehicles and we should use only good quality water for drinking purposes. Currently, water recycling is being only in a limited manner. So, we will have to stress more on proper recycling and reuse of water to prevent water pollution.

#### **5. Preventing soil erosion**

To prevent water from getting polluted, we are also required to prevent soil erosion. If there is soil conservation, we can stop water pollution up to some extent. We will have to plant more trees to stop soil erosion. We must adopt such methods which can cultivate the soil and improve the health of the environment.

#### **6. Making Swachh Bharat Abhiyana success**

There is need to implement Swachh Bharat Abhiyan in totality and make India open defecation free. Presently, the problem of open defecation and the dumping of garbage in public places still continue. When it rains, all the dirt, garbage and excreta get into streams or ponds, polluting water sources. Otherwise too, people themselves flow waste materials into rivers or ponds in the absence of proper drainage system. Ponds and rivers are also used for bathing and washing purposes due to which huge quantity of dirt and pollutants get accumulated in to the water bodies. Moreover, due to these activities, garbage, excreta, ashes of the dead old clothes and soiled materials are discharged into rivers and even sometimes dead bodies are also thrown into the rivers and water bodies. There are virtually no toilets in the slum settlements located near city-dwellings, or even if there is one, it is notable to function smoothly. This calls for practicing good hygiene in the true spirit of Swachh Bharat.

## 7. Cleaning of water ways and the beaches

Cleaning is required on a regular basis as water of the rivers, ponds and even the groundwater has also been contaminated by humans. Even the humans have not spared the ocean water, making it polluted. Travel through sea, growing preferences for residing near sea shores has resulted into several small and big settlements nears as which has made the pollution of sea water a rising concern. For their livelihood many people are selling different contents to the tourists and they throw the residue at sea shores and thus the water of the sea becomes polluted.

The temporary settlements near the sea normally do not have toilets which are why these people defecate in the water of the ocean and the people also throw their household garbage in ocean waters. After cleaning up their mess the ships also throw their garbage into the water. Sometimes, accidents of the ships also takes place in to the sea and thus various chemical substances and oil get spilled over the sea water leaving long term impact on the creatures living in water.

## 8. Need for living in harmony with nature

Man has forgotten that his existence on this Earth is because of the nature and environment. The human negligence is also a major cause of environmental pollution. Various species and organisms of the water naturally die due to humans bathing in the water and thus making it polluted. Household wastes and industrial waste also add to the problem. It is time for learning sustainable ways of living.

## 9. Adopting organic farming

The farmers should stop using various chemical fertilizers in their fields to get a bumper harvest or spraying pesticides on their crops for this purpose. When it rains all chemicals goes into the pond sand rivers through rain water and thus water bodies get heavily polluted.

### 5.2.4- Role of Central and State Government in Pollution Control.

#### Functions as State Board

The Water (Prevention & Control of Pollution) Act **section 18(2)** grants

the Central Board the —power to give directions to carry out any State Board's duties. These instructions will bind every State Board in writing to the extent that the Central Government or State Government can do so.

### **Publication of Statistical and Technical Data**

Technical and statistical data about water pollution must be gathered, compiled, and published by the Central PCB. There is a connection between the actions taken for its efficient prevention and management and the creation of manuals, guidelines, or guides related to treating and disposing of sewage and trade effluents and disseminating information.

### **Setting Stream and Well Standards**

The Central PCB must establish, alter, or repeal standards for the stream after consulting with a State Government concerned about them.

### **Program Execution at the National Level**

A national program for preventing, controlling, or reducing water pollution must be planned and brought about by the Central Pollution Control Board.

### **Functions of the State Pollution Control Board**

The State Board must carry out the following duties in accordance with **section 17** of the **Water (Prevention & Control of Pollution) Act of 1974**:

#### **Organising Training Program**

The State Pollution Regulate Board must work with the Central Board to train those involved in programs to prevent, restrain, or lessen water pollution and to plan mass education campaigns connected to that..

#### **Inspection of Sewage and Trade Effluents Plants**

The State Pollution Control Board must inspect wage treatment facilities and trade effluent works. Additionally, they must examine any plans, specifications, or other information about facilities put up for water purification, treatment, and sewage or trade effluent disposal systems associated with granting any consent.

#### **Standards for Causing Discharge of Water**

The NOC Pollution Control Board is required to review and alter the standards for sewage and commercial leffluents. They must classify state

water and assess the receiving water's quality once effluents are discharged.

### **Economic Methods of Treatment of Sewage**

Regarding the unique climatic, soil, and water resource characteristics in various regions, the State PCB must develop cost-effective and dependable ways for treating sewage and trade effluents.

### **Methods for Disposal of Sewage**

Due to the prevailing conditions of sparse stream flows that do not provide for the minimal degree of dilution for a considerable portion of the year, the State Pollution Control Board must develop effective ways of sewage and trade effluent disposal on land.

### **Standards for Treatment of Sewage**

The requirements for sewage treatment and the trade effluents that may be released into any stream must be established by the State Pollution Control Board. The minimal fairness, the availability of dilution in that stream, and the permissibility of pollution tolerance levels in the water of the creeks following the discharge of suit effluents are all taken into account.

### **Advisory Functions**

In addition performing the fore mentioned statutory duties, the State PCB must inform the state government of the location of any industry that may pollute a stream or well. Additionally, the Board occasionally completes activities that are mandated for it or that the Central Pollution Control Board or the State Government may delegate to it.

### **Powers of Central Pollution Control Board**

The Water (Prevention and Control of Pollution) Act of 1974 and the Air (Prevention and Control of Pollution) Act of 1981 both established the Central PCB, a statutory body. Promoting and putting into practice environmental laws and regulations is the main goal of CPCB in order to stop and manage pollution in the nation. Its capabilities and duties consist of:

**Section 18** of the Water (Prevention & Control of Pollution) Act gives the Central Pollution Control Board the authority to direct the State PCB.

### **Powers of State Pollution Control Board**

The Water (Prevention and Control of Pollution) Act of 1974 and the Air

(Prevention and Control of Pollution) Act of 1981 created the State PCBs, statutory organisations in India. These boards are responsible for preventing, controlling, and reducing pollution in their respective states. State PCBs have the following authority and responsibilities: **Regulation and Control:** SPCBs have the power to manage and regulate the release of pollutants into the atmosphere and into aquatic bodies. For businesses, factories, and other sources of pollution they can set emission and effluent limits.

**Granting and Renewal of Permits:** SPCBs grant permission for establishment and agreement to operate with polluting companies and other entities. Periodically, they also renew these licences.

**Monitoring and Inspection:** SPCBs conduct routine inspections and sampling to monitor the pollution levels in different sectors of the economy and places. To ensure that pollution control standards are being followed, they have the authority to check buildings, documents, and machinery.

**Enforcement:** SPCBs may take action against businesses and other non-compliant organisations, such as by levying fines, suspending licences, or bringing legal action.

**Setting Standards:** By federal regulations and the unique ecological circumstances of respective states, SPCBs are empowered to establish environmental standards for air and water quality, emissions, and effluents.

SPCBs serve as advisors to the state government on issues about sustainability, pollution prevention, and environmental preservation.

SPCBs may conduct or support research and development projects to find fresh pollution control strategies and technology.

**Public Awareness:** SPCBs can plan and support initiatives to increase public knowledge of environmental concerns and pollution prevention techniques.

**Environmental Impact Assessment:** By assessing the potential environmental effects of new projects and making suggestions to the government, they play a critical role in the environmental impact assessment (EIA) procedure.

**Coordination:** To guarantee effective pollution control measures, SPCBs work

with central pollution control boards, other state PCBs, and pertinent government ministries.

SPCBs can take legal action against pollutants by bringing legal claims to uphold pollution control legislation.

**Data Gathering and Analysis:** To evaluate the state of the environment in each of

their various states, they gather information on pollution levels, carry out environmental research, and analyse data. SPCBs are in charge of responding to environmental catastrophes like chemicals spills and taking action to lessen their effects.

**Building Capacity:** To help industries, government representatives, and other stakeholders better understand pollution control methods, they may offer training and capacity-building programs.

### 5.2.5- Procedure and Penalties

- The Water (Prevention and Control of Pollution) Amendment Bill, 2024 was introduced in Rajya
- Sabhaon February 5, 2024. It amends the Water (Prevention and Control of Pollution) Act, 1974. The Act establishes the central and state pollution control boards (CPCB and SPCBs) to prevent and control water pollution. The Bill decriminalises several violations, and instead imposes penalties. It will initially apply to Himachal Pradesh, Rajasthan, and the union territories. Other states may pass resolutions to extend its applicability to their states.
- **Chairman of State Board:** Under the Act, chairman of an SPCB is nominated by the state government. The Bill adds that the central government will prescribe the manner of nomination and the terms and conditions of service of the chairman.
- **Discharge of polluting matter:** Under the Act, the SPCB may issue directions to immediately restrain any activity which is leading to discharge of noxious or polluting matter in water bodies. The Act also

prohibits violation of standards (laid down by SPCB) regarding polluting matter in water bodies or on land, barring some exemptions. Exemptions include depositing non-polluting materials on the bank of a stream for reclaiming land. Violation of these provisions is punishable with an imprisonment term between one and a half years and six years, and a fine. The Bill removes the punishment and instead, imposes a penalty between Rs 10,000 and Rs 15 lakh.

- **Penalty for other offences:** Under the Act, an offence for which punishment is not explicitly specified is punishable with an imprisonment term of up to three months or a fine of upto Rs 10,000, or both. The Bill removes imprisonment as a punishment, and prescribes a penalty between Rs10,000 and Rs15 lakh. Failure to pay penalty for violation of any provision under the Act will attract an imprisonment term of up to three years, or a fine up to twice the amount of penalty imposed.
- **Adjudicating officer to determine penalties:** The Bill allows the central government to appoint adjudication officers to determine penalties under the Act. The officer must be of the level of a Joint Secretary to the central government, or of Secretary to the state government. Appeals against orders passed by the adjudicating officer may be made before the National Green Tribunal, after depositing 10% of the penalty levied. Penalties imposed by the adjudicating officer will be credited to the Environment Protection Fund established under the Environment (Protection) Act, 1986.
- **Cognizance of offences:** As per the Act, a court may take cognizance of an offence if a complaint is made by the CPCB or SPCB, or a person who has given a notice of the complaint to the Boards. The Bill adds that cognizance may also be taken if a complaint is made by the adjudicating officer.

**Power to declare air pollution areas:** Section 19 of the Act states that the State Government, after consulting the State Board, may declare an area within the State as an, air pollution area. The State Government may

also order for the extension or reductions of an air pollution area or may even merge one or more areas to make a new pollution area or any part or parts thereof.

The State Government after consulting the State Board, may also by notification in the official gazette, prohibit the use of any fuel or appliance that may cause or is likely to cause air pollution. The State Government may also prohibit the burning of any material (which is not a fuel) if it causes or is likely to cause air pollution. This is also done after consultations with the respective State Board.

**Power of entry and inspection:** Under Section 24, a person authorised by the State Board shall have the power to gain entry into any place for carrying out the performance of any of the functions assigned to him. He may examine and inspect any control equipment, industrial plant, record, register or any other document or object or any place which he has reason to believe was used for the commission of any offence under this Act. The person in charge of these equipment, plants, records, etc. shall assist the person from the State Board to perform the functions. Not doing so, will be an offence.

**Power to obtain information:** In Section 25, it is stated that the State Board or any person empowered under it shall have the power to call the person operating such plant or control equipment about any information regarding the type of air pollutant and the amount of emissions released by such plant or equipment. It shall also carry out inspections to verify the same.

**Power to take samples from air or emission and procedure to be followed:** Section 26(1) states that samples of air or emissions may be taken from any chimney, flue, duct or any outlet as prescribed. The samples shall be admissible in legal proceedings only on the compliance of conditions laid down in Sections 26(3) and 26(4). These are-

- The person taking the sample shall notify the occupier or agent of such occupier, of the place from where the sample has been taken.
- The sample shall be collected in the presence of the occupier or his agent.
- The sample shall be placed in a container, marked, and sealed. The container shall be signed by both the person taking the sample and

the occupier or his agent. This sample shall be sent to labs for testing and analysis.

In a condition where the occupier or agent willfully absents himself, then the sample shall be put into the container and be signed by the person taking the sample only. In a condition where the sample is being taken in the presence of the occupier or agent, and such occupier or agent refuses to sign the container, the person taking the sample shall sign the container.

### 5.2.6- Penalties and Procedure

#### Penalties

Under Section 37, whoever fails to comply with the provisions of Section 21, 22 and the directions issued under Section 31A, can be sentenced to imprisonment for a term of one year and six months. This sentence can be extended to six years and with a fine, if the requisite compliances under the a fore said sections are still not carried out, with an additional fine of five thousand rupees every day.

Under Section 38, penalties for certain acts are laid down. These acts are-

- Destroying, defacing, removing etc., any pillar, post, stake or notice fixed in the ground under the authority of the Board.
- Obstruction of any person acting under orders of the Board from exercising his powers and function under the Act.
- Damaging any property belonging to the Board.
- Failure to furnish information to an officer or any employee of the Board, that is required by such officer or employee.
- Failure to inform about the excess release of emissions than the standard set by the State Board. Even an apprehension of the release of excess emissions should be reported to the State Board.
- Giving false statements to Board authorities when furnishing information.
- Giving false information to the Board, for getting permission under Section 21 i.e. Permission for setting up industrial plants.

These are offences that shall be punishable with imprisonment which may

extend to three months with fine, which may extend to ten thousand rupees or both.

- Under Section 39, any order or direction which has been flouted, and for which there is no punishment anywhere in the Act, shall be punishable with three months imprisonment or a fine of three thousand rupees or both. If failure continues, there shall be a fine of an additional five thousand rupees every day.
- Section 40 of this Act talks about offences by companies. If an offence is committed by a company, every such person shall be deemed to be guilty, who is directly in charge of the company, who is responsible to the company for the conduct of its business as well as the company itself. He shall be punished according to the provisions of this Act. However, where such an offence was committed without the knowledge of such a person or where he had made full efforts and due diligence to stop these offences, this person shall not be held liable.
- Section 40(2) further states that where the offence was committed after obtaining the consent of the director, manager, secretary or other officer or happened due to the neglect of the aforesaid people, then they shall be deemed guilty and can be punished according to the Act.

### **Procedures**

Sections 42 to 46 cover procedures. Section 42 states that no suit, prosecution or another legal proceeding shall lie against the government, any officer of the government or any member, employee or officer of the Board, where the actions are done by such body or persons are done or intended to be done in good faith in pursuance of this Act.

Section 43 states that the Court shall take cognizance of only those offences where the complaint is made by-

- A Board or any officer authorised under it
- Any person who has given notice of not less than sixty days, of the alleged offence and his intention to make a complaint to the

Board or an officer authorised by it.

No court inferior to that of a Metropolitan Magistrate or Judicial Magistrate of First Class shall try any offence punishable under this Act.

- Section 44 states that all members, officers and other employees shall be deemed to be acting as public servants under Section 21 of the Indian Penal Code 1860.
- Section 45 states that the Central Board shall provide information in the form of data, statistics, reports or another form of information etc to the Central Government and the State Board shall also provide information in these forms, both to the Central Board and the State Government.
- Section 46 involves a bar of jurisdiction. It states that no civil court shall have jurisdiction in any matter in which an Appellate Authority formed under this Act is empowered by this Act to decide, nor should an injunction be granted in respect of any action taken under the pursuance of the powers of this Act.

### Let's Sum Up

By enforcing these Acts, India aims to protect its natural resources, enhance public health, and promote sustainable development across the country. These laws establish regulatory frameworks, empower central and state pollution control boards, set standards for emissions and water quality, and enforce compliance through penalties and legal procedures.

### Check Your Progress - QUIZ - 1

- 1 What does the pollution in simple terms means
  - a) uncontaminated environment
  - b) **Contaminated environment**
  - c) Uncontaminated and contaminated environment
  - d) None of the above
- 2 Which of the following are the primary causes of water pollution?
  - a) Plants
  - b) Animals

- c) **Human activities**
  - d) None of the theses
- 3** When did the environment protection Act, 1986, come into force?
- a) 01 April 1986
  - b) 01 Mach 1986
  - c) 01 May 1986
  - d) **19 November 1986**
- 4** Section 25 of the Environment (protection) Act, 1986 deals with \_\_\_\_\_?
- a) Government Analysis
  - b) **Power to make rules**
  - c) Bar of Jurisdiction
  - d) Protection of action taken in good faith
- 5** Which of the following is mainly responsible for the causes of water pollution?
- a) Afforestation
  - b) Oil refineries
  - c) Paper factories
  - d) **Both b and c**

### 5.3 Unit Summary

Environmental legislations in India, including the Geographical Indication of Goods Act, Environmental Protection Act, Water Act, and Air Act, collectively aim to protect natural resources, prevent pollution, and ensure sustainable development. These laws establish regulatory frameworks, empower central and state pollution control boards, set standards for emissions and water quality, and enforce compliance through penalties and legal procedures. By enforcing these legislations, India strives to safeguard environmental health, promote sustainable practices, and enhance quality of life for its citizens.

## 5.4 Glossary

Geographical Indication (GI)	A sign used on products that have a specific geographical origin and possess qualities or a reputation that are due to that origin.
GI Registration.	The process through which a geographical indication is officially recognized and registered under the Act
Environmental Protection	Measures taken to protect and improve the quality of the environment.
Central Pollution Control Board (CPCB)	Central authority responsible for coordinating and implementing pollution control measures related to water.
Water Quality Standards	Prescribed limits and criteria for various parameters that determine the quality of water.
Air Pollution Index.	A numerical scale for indicating the level of air pollution at a given location based on pollutant concentrations

## 5.5 Self-Assessment Questions

### Short Answers

#### Sl. No Questions

- 1 Explain Water Pollution
- 2 What are measures of Air pollution?
- 3 What are powers and functions of air pollution?

#### Essay Type Answers

##### Sl .no Questions

- 1 Explain the prevention control of water pollution.
- 2 What are the powers of Central and state governments?
- 3 How to control the Air pollution, explain briefly?

## 5.6 - Activities/Exercises/Case Studies

1	Case Study: "Darjeeling Tea" GI Tag
2	Case Study: "Delhi Air Pollution Crisis
3	Case Study: "Cleaning of River Gang
4	Case Study: "Industrial Emission Control in Mumbai"

## 5.7 Suggested Readings/ References

1. Setting up of Business Entities and Closure (2021), Module 1, Paper 3, The Institute of Company Secretaries of India, MP Printers, Noida
2. The Air (Prevention and Control of Pollution) Act, 1981, Bare Act, 2022 Edition, Universal/LexisNexis, Noida
3. The Water (Prevention and Control of Pollution) Act, 1974, Bare Act, 2022 Edition, Universal/LexisNexis, Noida
4. Cliff Ennico, (2005) "Small Business Survival Guide Starting Protecting and Securing your Business for Long-Term Success", Adams Media, USA
5. Daniel Sitarz,(2011) "Sole Proprietorship: Small Business Start-up Kit", 3<sup>rd</sup>Edition, Nova Publishing, USA