Auditing Course Material

Part 5 of 61 (Chapters 401-500)

3. Digital Payment

Traditionally, PoS terminals referred to those that were installed at all stores where purchases were made by customers using credit/debit cards. It is usually a hand held device that reads banking cards. However, with digitization the scope of PoS is expanding and this service is also available on mobile platforms and through internet browsers. There are different types of PoS terminals such as Physical PoS, Mobile PoS and Virtual PoS. Physical PoS terminals are the ones that are kept at shops and stores. On the other hand, mobile PoS terminals work through a tablet or smartphone. Virtual PoS systems use webbased applications to process payments. QR code is also used to accept payments.

4. Challenges of Digital Payments

Some of challenges to adoption of digital payments are:

- **Cyber security:** The customers are to be protected against cyber security threats and other threats like card skimming (fraudulently copy bank customer details stored on the magnetic strip).
- **Merchant Discount Rates, MDR:** Sometimes merchants avoids taking payment in digital form to avoid Merchant Discount Rate, which is a fee charged from a merchant by a bank for accepting payments from customers through credit and debit cards.
- **Connectivity:** Lack of connectivity is a challenge for smooth working of digital payment instruments.
- **Awareness:** There is need to create more awareness about digital payments.
- **Interoperability:** There is need to create interoperability among all instruments of digital payments. All banks and their PPIs (e-wallets) should be interoperable using the UPI backend to create a network effect.

The Reserve Bank of India introduced an Ombudsman Scheme for Digital Transactions, 2019. It is an expeditious and cost-free apex level mechanism for resolution of complaints regarding digital transactions. The Ombudsman for Digital Transactions is a senior official appointed by the Reserve Bank of India to redress customer complaints. There is also provision of Appellate Authority, who is Deputy Governor-in-Charge of the department of the RBI.

5. Digital Banking

Key concepts in digital banking are discussed next.

5. Digital Banking

The Society for Worldwide Interbank Financial Telecommunications (SWIFT) is a vast messaging network used by banks and other financial institutions to quickly, accurately, and securely send and receive information, such as money transfer instructions.

SWIFT is a messaging network that financial institutions use to securely transmit information and instructions through a standardized system of codes.

SWIFT assigns each financial organization a unique code that has either eight characters or 11 characters. The code is interchangeably called the bank identifier code (BIC), SWIFT code, SWIFT ID, or ISO 9362 code. It is a 8-character SWIFT code.

- First 4 characters: the institute code
- Next 2 characters: the country code
- Next 2 characters: the location/city code
- Last 3 characters: optional, but organizations use it to assign codes to individual branches.

The Rs 14,000 crore PNB fraud perpetrated by Nirav Modi was a case of misuse of this SWIFT software.

Structured Financial Messaging System (SFMS) is a secure messaging standard developed to serve as a platform for intra-bank and inter-bank applications. It is an Indian standard similar to the SWIFT.

---

5. Digital Banking

Magnetic Ink Character Recognition Code (MICR Code) is a character-recognition technology used mainly by the banking industry to ease the processing and clearance of cheques and other documents. It consists 9 digits. First three digits denotes the city, next three digits representing the bank and the last three digits representing the bank branch. This code is printed in Cheque Leaf, Demand Draft, Pay order etc.

---

5. Digital Banking

The Indian Financial System Code, is an alphanumeric code. This code innovatively identifies a bank branch that participates in two of the major electronic funds settlement in the country, RTGS and NEFT. It consists of 11 digits. First 4 digits show the Identity of the bank. 5th digit is kept as a default ZERO for future use i.e. 0. Last 6 Characters display the Branch Identity.

---

5. Digital Banking

The acronym 'RTGS' stands for Real Time Gross Settlement, which can be defined as the continuous (real-time) settlement of funds transfers individually on an order by order basis (without netting). 'Real Time' means the processing of instructions at the time they are received without any time delay. 'Gross Settlement' means the settlement of funds transfer instructions occurs individually (on an instruction by instruction basis). Considering that the funds settlement takes place in the books of the Reserve Bank of India, the payments are final and irrevocable. The minimum limit of Rs. 2 Lakhs.

---

5. Digital Banking

National Electronic Funds Transfer (NEFT) is an electronic fund transfer system that operates on a Deferred Net Settlement (DNS) basis which settles transactions in batches. In DNS, the settlement takes place taking into account all transactions received till the particular cut-off time. These transactions are netted (payable and receivables) in NEFT whereas in RTGS the transactions are settled individually. For example, currently, NEFT operates in hourly batches. Contrary to this, in the RTGS transactions are processed continuously throughout the RTGS business hours. From Dec, 2019, Reserve Bank of India (RBI) has allowed National Electronic Funds Transfer (NEFT) facility available for 24 hours a day and 365 days a year.

5. Digital Banking

Cheque Truncation System (CTS) is a cheque clearing system undertaken by the Reserve Bank of India (RBI) for faster clearing of cheques. Cheque truncation thus obviates the need to move physical instruments across branches. In the year 2010, RBI came up with the guidelines for Cheque Truncation system (CTS 2010) with higher security features.

5. Digital Banking

Bharat Bill Payment System (BBPS) is an integrated bill payment system in India offering interoperable and accessible bill payment service to customers through a network of agents of registered member as Agent Institutions.

5. Digital Banking

Internet Banking is a type of banking which allowed customers to access their financial and banking services via internet world wide web. It can be done using desktop, laptop or tablet. The “use of internet” is important for Internet Banking. The **Mobile banking** is referred to the process of carrying out financial transactions/banking transactions through a mobile phone. Some services of mobile banking are availed using internet (Prepaid Wallets, UPI), while some others can be done without internet (USSD, IMPS). The scope of mobile banking is only expanding with the introduction of many mobile wallets, digital payment apps and other services like the UPI.

5. Digital Banking

The Automated Teller Machine (ATM) is a device used by the bank customers to process account transactions. The customer inserts into the ATM, a plastic card i.e. encoded with information on a magnetic strip. The strip contains an identification code that is transmitted to the bank’s central computer by modem. Every cardholder should be given a PIN (personal identification number) that he should enter and after verifying the same with the records, ATM would allow operations.

5. Digital Banking

White Label ATMs are set up, owned and operated by non-bank entities. They are authorized under the Payment and Settlement Systems Act, 2007, by the RBI. Cash in ATMs is provided by the sponsored bank while ATM machine does not have any branding of Bank. Their role is confined to enabling the transactions of all banks customers by establishing technical connectivity with the existing authorized, shared ATM Network Operators or Card Payment Network Operators. The operators are entitled to receive a fee from the banks for the use of ATM resources by the bank's customers and are not permitted to charge bank customer directly. Tata Communications Payment Solutions Limited (Indicash) is the first company authorized by RBI to open WLAs in the country.

Brown label ATMs are ATMs which are owned by banks but operations and maintenance are outsourced to a third party. Such ATMs operate as the ones belonging to the bank itself, including having the bank's branding.

---

5. Digital Banking

The banks are aiming to make them more accessible by introducing telephone banking. Telephone banking refers to dialing one telephone number using a telephone to access the account, transfer funds, request statements or cheque book simply by following recorded message and touching the keys on your phone. It allows the customers to check account at convenient time and get simple things done without visiting bank premises.

---

5. Digital Banking

For making intercity payments customer usually make payments through demand drafts, mail transfers and telegraphic transfers. In 1996, RBI devised an electronic fund transfer (EFT) system to facilitate fast transfer of funds electronically.

---

5. Digital Banking

The Credit and Debit Cards use **Magnetic Stripe Technology**. The Magnetic stripe stores data in tracks of magnetic strips affixed to plastic cards. When a card is swiped at the point of sale, card data is read by a magnetic head. Credit and debit card data is formatted on two tracks with the payment details: the primary account number, name, expiration date and PIN code.

Magnetic stripe gained popularity when it became easy and inexpensive to replicate cards with simple, inexpensive, low-tech equipment. But the Cyber Criminals started **skimming**, and started stealing data from the card.

The **Chip Cards Technology** came into being to plug the security holes left by magnetic stripe. Chip cards replace static, unprotected data with dynamic cryptographic data. The "chip" is for the microcircuit in every card. Chip card technology makes it much harder to counterfeit cards.

The EMV stands for **Europay, Mastercard and Visa** who joined together in the early 1990s to create common standards that make card payments safer. Before EMV, each card network had independent standards. Creating common standards makes staying safe easier for everyone - consumers, banks, card networks, payment processors and the businesses that accept electronic payments.

Today, EMV chip card standards are maintained by a private organization, EMVCo, which is managed by leading card networks including American Express, Discover, JCB, Mastercard, UnionPay and Visa.

Near Field Communication (NFC) technology is a standards-based wireless communication technology that allows data to be exchanged between devices that are a few centimeters apart. An NFC-enabled smartphone must be held quite close to a contactless payment reader in order for NFC payment to work. It is based on Radio Frequency Identification (RFID). RFID works by way of a reader (such as a payment terminal), a specially designed tag (such as that on an enabled credit/debit card), and an antenna that sends signals between the two. The tag contains information, which the reader then recognizes.

A Cryptocurrency is a medium of exchange, such as the Indian Rupees, but is digital and uses encryption techniques to control the creation of monetary units and to verify the transfer of funds. The Bitcoin is one example of Cryptocurrency.

The **Blockchain** is the technology that enables the existence of Cryptocurrency (among other things). Satoshi Nakamoto (Japan) is the name used by the presumed pseudonymous person or persons who developed bitcoin.

In April 2018, the RBI published a circular that the "entities regulated by the RBI" shall not deal in Virtual Currencies (Crypto Currencies)." This was done considering the risks associated in dealing with such virtual currencies. In 2020, the Supreme Court set aside the central bank's 2018 circular and allowed banks and financial institutions from providing services related to cryptocurrencies. In May 2021, the RBI permitted banks to facilitate cryptos.

The Government is also considering a law through "Banning of Cryptocurrency and Regulation of Official Digital Currency Bill 2019" to regulate Cryptocurrencies.

---

1. Introduction

The Securities and exchange Board of India (SEBI) was first established in the year 1988 as a non-statutory body for regulating the securities market. It became an autonomous body on 12 May 1992 and given statutory powers in 1992 after the SEBI Act 1992 was passed by the Indian Parliament.

The instruments, which falls in purview of SEBI are:

- Primary Securities Market
- Secondary Securities Market
- Commodity Derivatives Market
- Mutual Funds
- Intermediaries Associated with the Securities Market
- Foreign Portfolio Investor
- Corporate Debt Market like bonds, Real Estate Investment Trusts (REITs), Infrastructure Investment Trust (InvITs), Alternative Investment Funds (AIFs)

It is to be noted that Forward Markets Commission was merged with SEBI in 2016. The **Forward Markets Commission** was the chief regulator of the commodity (MCX, NCDEX, NMCE, UCX etc) of the Indian futures market. The main aim of this body was to advise the Central Government on matters of the Forwards Contracts Act, 1952.

---

2. Board's Composition

The management of Board of SEBI consists of the following members:

- Chairman,
- 2 members from amongst the officials of the of the Central Government dealing with Finance,
- 1 member from the Reserve Bank, and
- 5 other members of whom at least 3 shall be the whole-time members, to be appointed by the Central Government.

The Chairman of SEBI is appointed by Central Government for 5 years with upper age limit of 65 years.

---

3. Functions

The various functions of SEBI are:

- To protect the interests of investors in securities market
- To promote the development of securities market
- To regulate takeover bids by companies.
- To regulate the business in stock exchanges and any other securities markets
- To register and regulate the working of stockbrokers, sub-brokers, share transfer agents, bankers to an issue, trustees of trust deeds, registrars to an issue, merchant bankers, underwriters, portfolio managers, investment advisers and such other intermediaries who may be associated with securities markets.
- To register and regulate the working of the depositories, participants, custodians of securities, foreign institutional investors, credit rating agencies.
- To register and regulate the working of venture capital funds and Collective Investment Schemes CIS including mutual funds. The CIS refers to any pooling of money more than Rs 100 crore from investors under any scheme and which is not registered with SEBI.
- To promote and regulate self-regulatory organizations
- To prohibit fraudulent and unfair trade practices relating to securities markets
- To promote investors' education and training of intermediaries of securities markets
- To prohibit Insider Trading in securities. The Insider Trading is the illegal practice of trading on the stock exchange to one's own advantage through having access to confidential information.
- To regulate substantial acquisition of shares and takeover of companies
- To conducting research for efficient working and development of securities market
- To perform and exercise such power under Securities Contracts (Regulation) Act 1956, as may be delegated by the Government of India.

---

4. Recent Developments

In 2024, the SEBI launched SCORES 2.0 version which strengthens investor complaint redress mechanism in securities market by making process more efficient. **SCORES** is an online system where investors in securities market can lodge their complaints through web URL and an App.

The **International Organization of Securities Commissions (IOSCO)** is an association of organizations that regulate the world's securities and futures markets. Members are typically primary securities and/or futures regulators of countries. It has a permanent secretariat in Madrid, Spain. The SEBI is member of IOSCO.

A Committee chaired by Dr. **N. K. Mitra** submitted its report on investor protection in April 2001.

In 2024, the SEBI has formed a committee under **Usha Thorat** to review ownership and economic structure of Clearing Corporations. The Clearing Corporation (CC) is an entity which handles the activity of clearing and settlement of trades in securities or other instruments that are traded on stock exchanges.

---

1. Introduction

A credit rating agency, also known as a ratings service, is a specialized company responsible for assessing and assigning credit ratings to various entities, primarily focusing on their ability to fulfill financial obligations. These entities may include governments, corporations, financial institutions, and other issuers of debt securities. The primary purpose of credit rating agencies is to provide investors and the public with an independent evaluation of the creditworthiness and risk associated with debt instruments.

These agencies conduct thorough and objective assessments of various factors that influence an entity's ability to meet its financial obligations. Factors may include financial health, management quality, industry outlook, and economic conditions.

The credit ratings serve as a form of guidance for investors, enabling them to assess the relative safety and risk of different investment opportunities. Higher-rated securities are generally considered less risky, while lower-rated securities carry a higher risk of default.

If a corporation plans to issue bonds to raise capital, it may approach credit rating agencies to assess its creditworthiness. The credit rating agency conducts a thorough analysis of the corporation's financial statements, industry conditions, and economic outlook. Based on this assessment, the agency assigns a credit rating to the corporation's bonds, influencing investor perceptions and interest rates at which the corporation can borrow.

The SEBI is responsible for regulating credit rating agencies in India under SEBI (Credit Rating Agencies) Regulations, 1999.

Some of prominent Credit Rating Agencies in India are discussed next.

---

2. CRISIL

CRISIL is the largest credit rating agency in India headquartered at Mumbai and comprises more than 60% of the market share. It was established in 1987 and the full form is Credit Rating Information Services of India. The majority shareholder of CRISIL is Standard & Poor's, one of the biggest credit rating agencies of the world.

---

3. CARE

Credit Analysis and Research Limited (CARE) is the second largest credit rating agency established in 1993 and headquartered at Mumbai. It was promoted by Industrial Development Bank of India (IDBI), Unit Trust of India (UTI) Bank, Canara Bank and other financial institutions.

4. ICRA

ICRA is an independent and professional investment information and credit rating agency established in 1991 and headquartered at Gurugram, Haryana. Investment Information and Credit Rating Agency of India, ICRA was a joint venture between Moody's and various Indian commercial banks and financial services companies.

5. SMERA

SME Rating Agency (SMERA) of India is a full-service ratings agency exclusively setup for Micro, Small and Medium enterprises in India. However, it has grown over the years to provide ratings to SMEs as well as to mid and large corporates in India. The agency was formed in 2005 by SIDBI.

6. ONICRA

ONICRA Credit Information Company Ltd. is a private credit rating agency in India that provides Employee Background Assessment & Individual Decision Analytics to enterprise customers. Founded by Sonu Mirchandani under ONIDA finance, it is headquartered at Gurugram.

7. India Ratings and Research (Ind-Ra)

Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies, and structured finance and project finance companies. Headquartered in Mumbai, Ind-Ra is a 100% owned subsidiary of the Fitch Group.

1. Introduction

The Government of India levies two types of taxes on the citizens of India; Direct Tax and Indirect Tax.

Every Tax which is levied by any Government has the following 2 effects. When a tax is imposed, the immediate effect of the tax is on the person on whom the tax has been imposed and he shall be liable to pay such tax. This effect is also known as **impact of tax**. The next issue involved in the imposition of tax is whether the burden of such tax, which is imposed on a person, can be shifted to another person i.e. can this tax be recovered from the other person. In other words, who will be ultimately affected by the imposition of tax. This effect is also known as **incidence of tax**.

Direct Tax

If the impact and incidence of tax is on the same person, i.e. the burden of the tax cannot be shifted or recovered from other person, it is known as Direct Tax.

Examples of direct taxes are:

- Income tax levied by the Central Government
- Taxes (i.e. stamp duty) on land and building levied by the State Government
- Estate Tax or Inheritance Tax
- Wealth Tax
- Corporation Tax
- Dividend Distribution Tax
- Property Tax
- Minimum Alternate Tax
- Capital Gain Tax
- Gift Tax
- Fringe Benefit Tax

Indirect Tax

If the impact of tax is on one person and the incidence of the tax is on another person i.e. the burden of tax can be shifted or the tax so paid by a person can be recovered from another person, it is known as Indirect Tax.

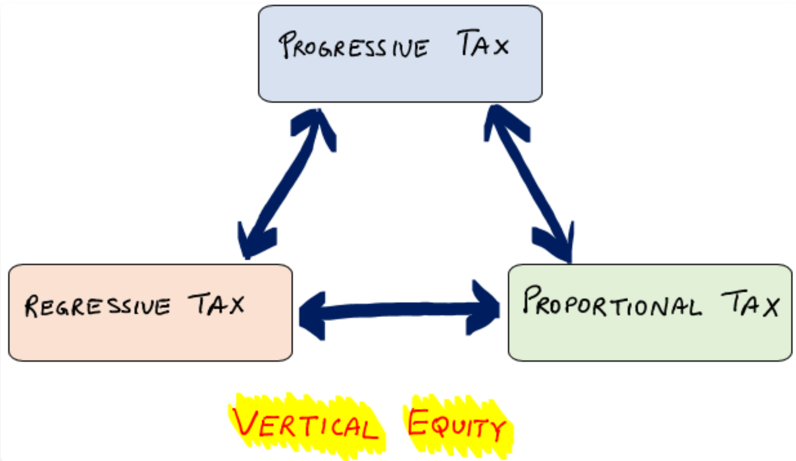
Examples of Indirect Taxes are:

- Goods and Services Tax (GST)- *CGST, SGST, IGST, UTST*
- Central Excise Duty levied by Central Government
- VAT levied by the State Government (under Pre-GST Regime)
- Service Tax (under Pre-GST Regime)
- Customs Duty
- Sales Tax (under Pre-GST Regime)
- Securities Transactions Tax

2. Vertical Equity

A good tax system should meet 5 basic conditions, that is, fairness, adequacy, simplicity, transparency, and administrative ease. Under the taxation system, the concept that people in different income groups should pay different rates of taxes or different percentages of their incomes as taxes, is termed as **Vertical Equity.** It is a method of taxation wherein the personal income tax liability of an individual increases as their income increases. It is based on the principle that individuals with higher incomes and more assets must pay a higher income tax than others.

Vertical equity involves classifying taxes as regressive, proportional, or progressive.



1. Progressive Tax

It is a tax that takes a larger percentage of income from high-income groups than from low-income groups. In simple words, the tax rate is higher on to rich and lower on poor people. This helps to reduce unequal distribution of income and wealth in the society.

2. Regressive Tax

It is a tax that takes a larger percentage of income from low-income groups than from high-income groups. This is not a popular mode of taxation and not as per the spirit of modern democracies.

3. Proportional Tax

It is a tax that takes the same percentage of income from all income groups. In other words, even when the level of income and wealth has increased, the rate of tax remains same.

---

3. Administrative Framework

The Department of Revenue functions under the Ministry of Finance. It exercises control in respect of matters relating to all the Direct and Indirect Union Taxes through 2 statutory boards namely, the Central Board of Direct Taxes (CBDT) and the Central Board of Indirect Taxes and Customs (CBIC).

The two Boards were constituted under the Central Board of Revenue Act, 1963.

Each Board is headed by a Chairman who is also ex-officio Special Secretary to the Government of India. Each Board has a sanctioned strength of 6 members.

Matters relating to the levy and collection of all Direct taxes are looked after by the CBDT whereas those relating to levy and collection of Goods and Service Taxes (GST), Customs and Central Excise duties, Service Tax and other Indirect taxes fall within the purview of the CBIC.

---

4. Types of Taxes

Description of various types of taxes are discussed next.

4. Types of Taxes

The Value Added Tax, VAT is a kind of tax levied on sale of goods and services when these commodities are ultimately sold to the consumer. While VAT is levied on sale of goods and services and paid by producers to the government, the actual tax is levied from customers. Thus, it is an indirect form of tax which is paid to the government by customers but via producers of goods and services.

VAT is a multi-stage tax which is levied at each step of production of goods and services which involves sale/purchase. It is levied both on local as well as imported goods and is actually calculated as the difference between input tax and output tax.

VAT = Output Tax – Input Tax

The Goods & Services Tax (GST) has replaced VAT w.e.f. 1 July 2017.

4. Types of Taxes

The Securities Transaction Tax (STT) is a kind of turnover tax where the investor has to pay a small tax on the total consideration paid or received in a share transaction. STT was first introduced in the Union Budget 2004. The idea of STT was born after it was found that there were cases of capital gains taxes evasion through real and fictitious losses. Thus, STT came into being as a way of realizing the actual potential of taxing the stock markets. So, while Long-Term Capital Gains (LTCG) tax was exempted, STT was introduced to make sure there was no tax evasion. The LTCG too made a comeback in 2019.

In essence, STT is an indirect tax and is imposed on a broker rather than the investor/trader directly. The broker, in turn, collects it from its clients and deposits it with the government. An investor or trader has to pay the tax no matter whether he makes a profit or not.

4. Types of Taxes

The Commodity Transaction Tax (CTT) is a tax levied in India on transactions done on the domestic commodity futures exchanges. It is similar to a Financial Transaction Tax (FTT), which is commonly associated with transactions done in the financial sector.

4. Types of Taxes

The tax levied on the profit or gain earned on selling capital assets (like stocks, bonds, jewelry, coin collections, and real estate property) is called capital gains tax. In other words, it applies only to transactions which are capital in nature i.e., result in change of assets or liabilities. Capital gains are not applicable to an inherited property as there is no sale, only a transfer of ownership. The Income Tax Act 1961 has specifically exempted assets received as gifts by way of an inheritance or will.

When an asset is held for a period of 36 months or less, it is termed as a Short-term Capital Gains Tax (STCG). In other words, an asset that is held for more than 36 months is a Long-term Capital Gains Tax (LTCG) on Long-term capital asset. The criteria of 36 months have been reduced to 24 months for immovable properties such as land, building and house property. For instance, if you sell house property after holding it for a period of less than 24 months, any income arising will be treated as short-term capital gain.

---

4. Types of Taxes

Customs Duty refers to the tax imposed on the goods when they are transported across the international borders. The objective behind levying customs duty is to safeguard each nation's economy, jobs, environment, residents, etc., by regulating the movement of goods, especially prohibited and restrictive goods, in and out of any country.

In recent years, India witnessed major reforms in the taxation system via digitalization. From Income Tax to GST, most of the things are now available online. To ensure ease of doing business, the CBIC has launched e-SANCHIT, which enables registered persons to file their customs related documents online. Only the ICEGATE registered users can use the e-SANCHIT application by accessing e-SANCHIT link.

ICEGATE (Indian Customs Electronic Gateway) is the national portal of CBIC that provides e-filing services to the Trade, Cargo Carriers and other Trading Partners electronically.

---

4. Types of Taxes

Corporate tax is paid by the companies registered under company law in India on the net profit. It is taxed at a specific rate as prescribed by the Income Tax Act subject to the changes in the rates every year by the Income Tax department. It is a direct tax.

---

4. Types of Taxes

The Companies are required to pay tax on the dividend distributed to the shareholders in a particular year. It is a direct tax. Note that, the Finance Bill 2020 presented alongside the Union Budget on February 1, 2020, abolished the imposition of Dividend Distribution Tax w.e.f. FY 2020-21. Now, the taxes on income received from dividends will now have to be paid by the shareholders instead of the dividend distributing company.

---

4. Types of Taxes

The companies that are popularly known as **zero-tax companies** show profits as per the Companies Act, but minimize tax outgo, as they display income that is zero or negative under the provisions of the Income Tax Act. With MAT, companies have to pay up a minimum amount of tax to the government. In India, the MAT is levied under Section 115JB of the Income Tax Act, 1961. It is a direct tax. In September 2019, the Government reduced MAT from 18.5% to 15%.

5. Goods and Services Tax

The Kelkar Task Force on Fiscal Responsibility and Budget Management (FRBM) recommended in 2005 introduction of a comprehensive tax on all goods and service replacing Central level VAT and State level VATs. It recommended replacing all indirect taxes except the customs duty with VAT on all goods and services with complete set off in all stages of making of a product. The GST an indirect tax for the whole country on the lines of **One Nation One Tax** to make India a unified market.

Introduction of the GST required amendments in the Constitution so as to simultaneously empower the Centre and the States to levy and collect this tax. The Constitution of India has been amended by the Constitution (101^{st} Amendment) Act, 2016, for this purpose. Article 246A of the Constitution empowers the Centre and the States to levy and collect the GST.

GST would be applicable on **supply of goods or services** as against the earlier concept of tax on **manufacture of goods** or on sale of goods or on provision of services. It includes all sorts of activities like manufacture, sale, barter, exchange, transfer etc. It also includes supplies made without consideration when such supplies are made in certain specified situations.

5. Goods and Services Tax

Following taxes have been subsumed under GST at Central level as well as State Level.

At Central Level	At State Level
Central Excise Duty	State VAT
Duties of Excise (Medicinal and Toilet Preparations)	Entertainment Tax (except those levied by local authorities)
Additional Duties of Excise (Goods of special Importance)	Central Sales Tax
Additional Duties of Excise (Textiles and Textile Products)	Octroi and Entry Tax
Additional Duties of Customs (commonly known as CVD)	Purchase Tax
Special Additional Duty of Customs (SAD)	Luxury Tax
Service Tax	Taxes on lottery, betting, and gambling
Cesses and surcharges insofar as they relate to supply of goods or services	Entry Tax (all forms)

However, GST has not subsumed the following taxes within its ambit:

- *Basic Customs Duty:* These are protective duties levied at the time of Import of goods into India.
- *Exports Duty:* This duty is imposed at the time of export of certain goods which are not available in India in abundance.
- *Road & Passenger Tax:* These are in the nature of fees and not in the nature of taxes on goods and services.
- *Toll Tax:* These are in the nature of user fees and not in the nature of taxes on goods and services.
- *Property Tax*
- *Stamp Duty*
- *Electricity Duty*

5. Goods and Services Tax

India has adopted dual GST model because of its unique federal nature. Under this model, tax is levied concurrently by the Centre as well as the States on a common base, i.e. supply of goods or services or both. GST to be levied by the Centre would be called Central GST (Central tax/ CGST) and that to be levied by the States would be called State GST (State Tax / SGST). State GST (State Tax / SGST) would be called UTGST (Union territory tax) in Union Territories without legislature.

IGST

Inter-State supply of goods or services shall be subjected to integrated GST (Integrated tax / IGST). The IGST model is a unique contribution of India in the field of VAT. The IGST Model envisages that Centre would levy IGST (Integrated Goods and Service Tax) which would be CGST plus SGST on all inter-State supply of goods or services or both. The inter-State supplier will pay IGST on value addition after adjusting available credit of IGST, CGST, and SGST on his purchases. The Exporting State will transfer to the Centre the credit of SGST used in payment of IGST.

In this respect, the Parliament enacted 4 Acts, namely:

1. The Central Goods and Services Tax Act, 2017;
2. The UT Goods and Services Tax Act, 2017;
3. The Integrated Goods and Services Tax Act, 2017; and
4. The Goods and Services Tax (Compensation to States) Act, 2017.

5. Goods and Services Tax

The GST Council is the key decision-making body that will take all important decisions regarding the GST, will have representation from the central governments as well as all the state governments. The Goods & Services Tax Council (GST Council) has been created in September 2016 under Article 279-A of the Constitution of India. It has its Secretariat office in New Delhi.

The Council shall consist of the following members, namely:

- the Union Finance Minister - Chairperson;
- the Union Minister of State in charge of Revenue or Finance - Member;
- the Minister in charge of Finance or Taxation or any other Minister nominated by each State Government - Members.

One-half of the total number of Members of the Goods and Services Tax Council shall constitute the quorum at its meetings.

---

5. Goods and Services Tax

GST is levied on all goods and services, except alcoholic liquor for human consumption and petroleum crude, diesel, petrol (motor spirit), ATF (Aviation Turbine Fuel) and natural gas. It is important to note that tobacco is subject to GST as well as central excise duty. Similarly, opium, Indian hemp and other narcotic drugs and narcotics are subject to GST as well as State excise duties. However, real estate sector has been kept out of ambit of GST, i.e., GST will not be levied on sale/purchase of immovable property.

The concept of **declared goods of special importance** under the Constitution is done away with. Presently, certain restrictions are placed on the powers of States in regard to tax on such goods.

---

5. Goods and Services Tax

Owing to unique Indian socio-economic milieu, 4 rates namely **5%, 12%, 18% and 28%** have been adopted. Besides, some goods and services are exempt also. Rate for precious metals and affordable housing are an exception to 'four-tax slab-rule' and the same has been fixed at 3% and 1% respectively. In addition, unworked diamonds, precious stones, etc. attracts a rate of 0.25%. A cess over the peak rate of 28% on certain specified luxury and demerit goods, like tobacco and tobacco products, pan masala, aerated water, motor vehicles is imposed to compensate States for any revenue loss on account of implementation of GST.

Export of goods and services are zero rated. Supplies to SEZs developers and SEZ units are also zero-rated.

The GST would apply to all goods other than alcoholic liquor for human consumption and 5 petroleum products, viz. petroleum crude, motor spirit (petrol), high speed diesel, natural gas and aviation turbine fuel.

---

5. Goods and Services Tax

Input Tax Credit (ITC) is considered to be the lifeline of the GST regime. It is the provisions of ITC which essentially make GST a value added tax, i.e., collection of tax at all points of supply chain after allowing credit of tax paid at earlier points. The scheme is designed to avoid cascading effect of taxes and make GST a destination-based tax. In other words, Input Tax Credit is the tax that a business pays on a purchase and that it can use to reduce its tax liability when it makes a sale. Thus, businesses can reduce their tax liability by claiming credit to the extent of GST paid on purchases.

Broadly, ITC is available on all inputs, input services and capital goods used for purposes of business of a taxable person. The exception is ‘blocked credit’, where ITC is not available, even when these goods or services are used for purposes of businesses. A business under ‘composition scheme’ cannot avail of input tax credit. ITC cannot be claimed for personal use or for goods that are exempt.

Every registered person shall be entitled to ITC charged on inward supply of goods and / or services. ITC will be available on goods and/or services which are used or intended to be used in the course or furtherance of the business. ITC will be credited in Electronic Credit Ledger.

---

5. Goods and Services Tax

Implementation of GST in many countries was coupled with increase in inflation and the prices of the commodities. This happened in spite of the availability of the tax credit. This was happening because the supplier was not passing on the benefit to the consumer and thereby indulging in illegal profiteering. National Anti-Profiteering Authority (NAPA) was constituted under GST by the Central Government to examine the complaints of non-passing the benefit of reduced tax incidence. Now NAPA has ceased to exist from Dec 2022 and all such matters will now be examined by the Competition Commission of India.

The **e-way bill**, short form for electronic way bill, is a document to be generated online under the GST system, when goods of the value of more than Rs 50,000 are shipped inter-State or intra-State. The E-way bill must be raised before the goods are shipped and should include details of the goods, their consignor, recipient and transporter. The transporter has to carry the invoice and the copy of E-way bill as support documents for the movement of goods. He can also carry the E-way bill number, mapped to an RFID (radio frequency identification device).

---

5. Goods and Services Tax

Goods and Services Tax Network (GSTN) has been set up by the Government as a private company under erstwhile Section 25 of the Companies Act, 1956. The GSTN would provide 3 front end services to the taxpayers namely registration, payment and return. Besides providing these services to the taxpayers, GSTN would be developing back-end IT modules for States who have opted for the same. Infosys has been appointed as Managed Service Provider (MSP). The Central Government holds 24.5% stake in GSTN, while the state government holds 24.5%. The remaining 51% are held by non-Government financial institutions like HDFC Bank, ICICI Bank, NSE, LIC.

The GSTIN refers to the unique **GST Identification Number** that every business will be allotted. Every taxpayer will be allotted a 15-digit GSTIN. Also, note that having PAN is mandatory to register under GST. The GSTIN is issued by Central Board of Indirect Taxes & Customs (CBIC). Unlike the previous indirect tax regime, where multiple registration numbers were present for different laws like Excise, Service Tax and VAT, it is a single registration number under GST- GSTIN.

---

5. Goods and Services Tax

The Goods and Services Tax (Compensation to States) Act, 2017 provides for compensation to the States for the loss of revenue arising on account of implementation of the goods and services tax. Compensation will be provided to a State for a period of 5 years from the date on which the State brings its SGST Act into force. For the purpose of calculating the compensation amount in any financial year, year 2015-16 will be assumed to be the base year, for calculating the revenue to be protected. The growth rate of revenue for a State during the five-year period is assumed be 14% per annum. The base year tax revenue consists of the states' tax revenues from: (i) State Value Added Tax (VAT), (ii) central sales tax, (iii) entry tax, octroi, local body tax, (iv) taxes on luxuries, (v) taxes on advertisements, etc.

---

6. Income Tax

Income Tax is a tax levied by the Government of India on the income of every person. The provisions governing the Income-tax are covered in the Income-tax Act, 1961.

Income-tax is levied on the annual income of a person. The year under the Income-tax Law is the period starting from 1st April and ending on 31st March of next calendar year. The Income-tax Law classifies the year as (a) Previous year, and (b) Assessment year.

The year in which income is earned is called as **previous year** and the year in which the income is charged to tax is called as **assessment year,** for example, Income earned during the period of 1st April, 2022 to 31st March, 2023 is treated as income of the previous year 2022-23. Income of the previous year 2022-23 will be charged to tax in the next year, i.e., in the assessment year 2023-24.

Income-tax is to be paid by every person. The term 'person' as defined under the Income-tax Act to cover in its ambit natural as well as artificial persons.

For the purpose of charging Income-tax, the term **person** includes Individual, Hindu Undivided Families [HUFs], Association of Persons [AOPs], Body of individuals [BOIs], Firms, LLPs, Companies, Local authority and any artificial juridical person not covered under any of the above.

Thus, from the definition of the term 'person' it can be observed that, apart from a natural person, i.e., an individual, any sort of artificial entity will also be liable to pay Income-tax.

The rates of Income-tax and corporate taxes are available in the Finance Act passed by the Parliament every year.

An exempt income is not charged to tax, i.e., Income-tax Law specifically grants exemption from tax to such income. Incomes which are chargeable to tax are called as taxable incomes.

---

6. Income Tax

Taxes are collected by the Government through 3 means:

1. voluntary payment by taxpayers into various designated Banks. For example, Advance Tax and Self-Assessment Tax paid by the taxpayers,
2. Taxes deducted at source (TDS) from the income of the receiver, and
3. Taxes Collected at Source (TCS).

It is the constitutional obligation of every person earning income to compute his income and pay taxes correctly.

The rates of Income-tax and corporate taxes are available in the Finance Act passed by the Parliament every year.

An exempt income is not charged to tax, i.e., Income-tax Law specifically grants exemption from tax to such income. Incomes which are chargeable to tax are called as taxable incomes.

Direct Taxes Code

- Through Direct Taxes Code (DTC), the government aims to simplify the structure of 'direct tax' laws in India into a single legislation. The DTC will replace the Income-tax Act, 1961, and other direct tax legislation like the Wealth Tax Act, 1957. The first draft Direct Taxes Code Bill was released on August 12, 2009, and then a Revised Discussion Paper (RDP) was in 2010.
- In 2017, the government set up an expert committee to draft a new Direct Taxes Code. The report of the task force was submitted in 2019. Akhilesh Ranjan is the head of the task force.

6. Income Tax

The new proposals as per the Union Budget 2025-26 are given below.

Tax slabs under the new tax regime have been modified. The proposed tax structure is shown in the Tabl. Annual income of up to Rs 12 lakh will receive 100% rebate on the taxable income. Earlier, this only applied to income of up to seven lakh rupees. The old tax regime remains unchanged.

Table 1: Tax Slabs under New Tax Regime

Tax Rate	Current Income Slab	Proposed Income Slab
Nil	Up to Rs 3 lakh	Up to Rs 4 lakh
5%	Rs 3 lakh to Rs 7 lakh	Rs 4 lakh to Rs 8 lakh
10%	Rs 7 lakh to Rs 10 lakh	Rs 8 lakh to Rs 12 lakh
15%	Rs 10 lakh to Rs 12 lakh	Rs 12 lakh to Rs 16 lakh
20%	Rs 12 lakh to Rs 15 lakh	Rs 16 lakh to Rs 20 lakh
25%	-	Rs 20 lakh to Rs 24 lakh
30%	Above Rs 15 lakh	Above Rs 24 lakh

A new income tax bill will be introduced in Parliament.

Time-limit to file updated returns for any assessment year is increased from two to four years with a penalty of 60% and 70% of the income tax and interest payable for third and fourth year, respectively.

Startups incorporated up to April 1, 2025 can currently avail income tax exemption for three consecutive years during the first ten years of operation. This period has been extended to cover startups incorporated upto April 1, 2030.

6. Income Tax

Salient features of Income Tax in India are discussed below.

Taxability of Receipts

Receipts can be classified into two kinds: (a) Revenue receipt, (b) Capital receipt.

Revenue receipts are recurring in nature like salary, profit from business, interest income, etc.

Capital receipts are generally of isolated nature like receipt on account of sale of residential building, personal jewellery, etc.

The general rule under the Income-Tax Law is that all revenue receipts are taxable, unless they are specifically granted exemption from tax and all capital receipts are exempt from tax, unless there is a specific provision for taxing them.

Taxability of Agriculture Income

Agricultural income is not taxable. However, if you have non-agricultural income too, then while calculating tax on non-agricultural income, your agricultural income will be taken into account for rate purpose.

Taxability of Prizemoney/ Winning from lotteries

Such winnings are liable to flat rate of tax at 30% without any basic exemption limit. In such a case, the payer of prize money will generally deduct tax at source (i.e., TDS) from the winnings and will pay you only the balance amount.

Income taxable in India as well as abroad

You can claim relief in respect of income which is charged to tax both in India as well as abroad. Relief is either granted as per the provisions of double taxation avoidance agreement entered into with that country (if any) by the Government of India or by allowing relief as per section 91 of the Act in respect of tax paid in the foreign country.

Benefits to Senior Citizens and Very Senior Citizens

Senior citizens and a very senior citizen are granted a higher exemption limit as compared to normal taxpayers. Exemption limit is the quantum of income up to which a person is not liable to pay tax. The exemption limit granted to senior citizen and very senior citizen for the financial year 2022-23 is given below.

A senior citizen (60 years and above but below 80 years) is granted a higher exemption limit compared to non-senior citizens. The exemption limit for the financial year 2022-23 available to a resident senior citizen is Rs. 3,00,000. The exemption limit for non-senior citizen is Rs. 2,50,000. Thus, it can be observed that an additional benefit of Rs. 50,000 in the form of higher exemption limit is available to a resident senior citizen as compared to normal taxpayers.

A very senior citizen (80 years or above) is granted a higher exemption limit compared to others. The exemption limit for the financial year 2022-23 available to a resident very senior citizen is Rs. 5,00,000. The exemption limit for non-senior citizen is Rs. 2,50,000. Thus, it can be observed that an additional benefit of Rs. 2,50,000 in the form of higher exemption limit is available to a resident very senior citizen as compared to normal taxpayers.

Permanent Account Number

PAN stands for Permanent Account Number. PAN is a ten-digit unique alphanumeric number issued by the Income Tax Department. PAN enables the department to link all transactions of the assessee with the department. These transactions include tax payments, TDS/TCS credits, returns of income, specified transactions, correspondence and so on. It facilitates easy retrieval of information of assessee and matching of various investments, borrowings and other business activities of assessee.

7. Double Taxation Avoidance Agreement

A Double Taxation Avoidance Agreement (DTAA) is a tax treaty signed between two or more countries. Its key objective is that taxpayers in these countries can avoid being taxed twice for the same income. A DTAA applies in cases where a taxpayer resides in one country and earns income in another. DTAAs are intended to make a country an attractive investment destination by providing relief on dual taxation. Such relief is provided by exempting income earned abroad from tax in the resident country or providing credit to the extent taxes have already been paid abroad. DTAAs also provide for concessional rates of tax in some cases.

The **Foreign Tax and Tax Research** (FT&TR) Division under Department of Revenue negotiates and finalizes the Double Taxation Avoidance Agreements (DTAAs) which are entered into for twin purpose of (a) allocation of taxation rights between the Contracting States with a view to avoid double taxation and (b) prevention of fiscal evasion through exchange of information, assistance in collection of taxes. DTAAs can either be comprehensive to cover all sources of income or be limited to certain areas such as taxing of income from shipping, air transport, inheritance, etc. India has DTAAs with more than 90 countries, of which comprehensive agreements include those with Australia, Canada, Germany, Mauritius, Singapore, UAE, the UK and US.

Base Erosion and Profit Shifting (BEPS)

Base Erosion and Profit Shifting (BEPS) refers to the tax planning strategies used by multinational companies to exploit gaps and differences between tax rules of different jurisdictions internationally. This is done to artificially shift profits to low or no-tax jurisdictions where there is little or no economic activity. BEPS has been a cause of concern for developing and emerging economies for long as it erodes their tax base depriving them of much needed resources for developmental activities.

1. Introduction

The business environment encompasses all internal and external factors that impact a business, including employees, customer needs, supply and demand, management, government actions, technological innovations, social and market trends, economic fluctuations, and more. These factors directly or indirectly affect a company's operations and functioning, shaping its overall situation.

Managers should have an understanding of the business environment due to following reasons:

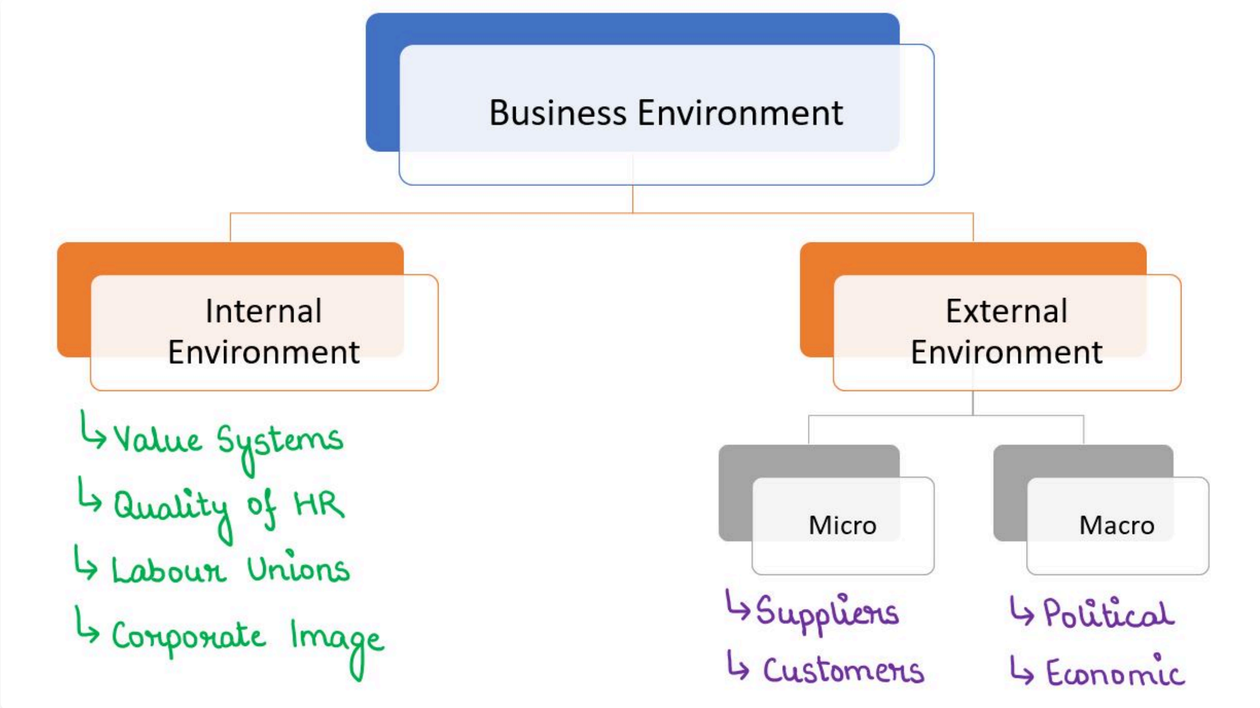
- It helps identify opportunities and gain a competitive advantage.
- It allows for the early detection of threats and warning signs.
- It facilitates the utilization of vital resources like finances, raw materials, and labour.
- It aids in adapting to rapid changes in the business landscape.
- It assists in strategic planning and policy formulation.
- It contributes to overall performance improvement.

2. Features of Business Environment

Key features of the business environment include:

- Comprising both internal and external forces, making it an aggregate concept.
- Involving specific forces (e.g., customers, competitors) that affect individual enterprises directly and general forces (e.g., political, technological) that impact all businesses indirectly.
- Exhibiting interrelatedness among its various elements, with changes in one area influencing others.
- Being dynamic and subject to constant change, whether due to technological advancements, shifts in consumer preferences, or new market entrants.
- Possessing a high degree of uncertainty, making it challenging to predict future developments.
- Being complex, as it involves numerous dynamic and interrelated conditions that can vary in their impact on a business.
- Being relative, as it varies from one country or region to another, with political, cultural, and market conditions differing significantly.

3. Elements of Business Environment



The viability of a business hinges on its strengths and adaptability to its surroundings. The environment can be categorized into 2 main facets - the Internal Environment and the External Environment. Business decisions are influenced by both of these environments.

1. Internal Environment

The internal strengths encompass the company's internal environment, comprising financial, physical, human, and technological resources. Financial resources indicate the company's financial stability, while physical resources encompass tangible assets like machinery and buildings that transform inputs into outputs. Human resources pertain to the specialized workforce responsible for business activities. These forces are typically within the organization's control and can be modified to align with business needs.

2. External Environment

The external environment encompasses uncontrollable factors beyond the company's purview. It encompasses elements such as legal, political, socio-cultural, economic, technological, and demographic factors. These external factors necessitate firms to adapt to their environment. Managers must harmonize the internal environment with the external one to leverage opportunities and mitigate threats.

The external environment can be further sub-divided into the micro-environment and the macro-environment.

The **micro environment** comprises factors in the immediate vicinity of the company. These factors directly impact the company's performance and its ability to serve its customers. The micro environment encompasses customers, suppliers, competitors, the public, and market intermediaries. These entities play vital roles in promoting, selling, and distributing products to end consumers. Physical distribution firms, service agencies, and financial intermediaries are also part of this micro environment. While firms can exert control over these factors to a large extent, they operate within the broader macro environment, which lies beyond their control.

The **macro environment** encompasses economic and non-economic variables that offer opportunities and pose threats to firms. This realm is largely uncontrollable, compelling firms to adapt their operations accordingly. The macro-environment encompasses the following dimensions:

- **Economic Environment:** The economic environment consists of economic forces affecting business activities. Elements such as industrial production, agriculture, infrastructure, national income, monetary and fiscal policies, population, and business cycles constitute the economic environment.
- **Non-Economic Environment:** This includes socio-cultural, technological, political and legal factors that influence the business environment.

These factors are discussed next.

3. Elements of Business Environment

The economic environment is a fundamental factor that deeply influences business activities. It encompasses various economic forces, conditions, and factors that shape a business's performance and prospects. Key elements of the economic environment include economic growth, inflation rates, interest rates, exchange rates, and the overall economic stability of a country or region.

Economic conditions can significantly impact consumer spending, demand for products and services, and the cost of doing business. For instance, a thriving economy typically results in increased consumer confidence and higher purchasing power, benefiting businesses. Conversely, economic recessions can lead to reduced consumer spending and tighter budgets, posing challenges to businesses.

Businesses must monitor economic indicators, adapt pricing and marketing strategies to economic conditions, and make informed decisions regarding investments and expansion. Understanding the economic environment is crucial for assessing market opportunities, making financial forecasts, and managing risk effectively in a dynamic and ever-changing economic landscape.

3. Elements of Business Environment

The social structure and culture of a society play a crucial role in shaping business activities. Each society has its unique customs, values, beliefs, and habits, making it essential for businesses entering new markets to respect and understand these cultural sensitivities. While business innovations and information dissemination can influence societal changes, changing the social environment is often slow and challenging. Businesses must adapt to the uncontrollable socio-cultural environment, considering factors like consumption patterns, gender roles, and consumer preferences. Consumerism, advocating for consumer rights, also significantly impacts the socio-economic business landscape.

The social environment encompasses forces like customs, values, and societal expectations. For instance, festivals provide economic opportunities for various businesses. Understanding these elements is vital for effective market entry and sustainable success.

3. Elements of Business Environment

The technological environment is a pivotal factor influencing business operations. It encompasses the impact of technology on industries, processes, and consumer behavior. Rapid technological advancements can create new opportunities and disrupt existing business models. Firms must stay updated with the latest technologies to remain competitive.

The technological environment comprises elements like innovation, research and development, automation, digitalization, and the internet. Businesses that harness technology effectively can enhance efficiency, streamline processes, and create innovative products or services. Moreover, the advent of artificial intelligence, big data analytics, and the Internet of Things has revolutionized industries and altered consumer expectations.

3. Elements of Business Environment

The Political Environment is a critical aspect that significantly impacts business operations. It encompasses government policies, regulations, laws, and the overall political stability of a country or region. The political environment can either create a favorable climate for business growth or pose challenges and uncertainties.

Political decisions and policies can directly affect industries through tax laws, trade regulations, environmental regulations, and labor laws. Political stability and good governance are essential for a conducive business environment. Unpredictable political changes, on the other hand, can disrupt business operations, investments, and trade relationships.

Businesses need to closely monitor the political landscape, engage in government affairs, and adapt their strategies to navigate the political environment effectively. This may involve compliance with regulations, advocating for favorable policies, and managing political risks. Understanding the political environment is crucial for assessing opportunities and challenges in different markets and regions.

---

3. Elements of Business Environment

The Legal Environment is a critical aspect that shapes the framework within which businesses operate. It encompasses various legislations enacted by the government, administrative directives issued by government authorities, court rulings, and decisions made by commissions and agencies at all levels of government - central, state, or local. In India, businesses must have a comprehensive understanding of the legal landscape, which includes key legislations such as the Companies Act, 1956; Industries (Development and Regulation) Act, 1951; Foreign Exchange Management Act; Imports and Exports (Control) Act, 1947; Factories Act, 1948; Trade Union Act, 1926; Workmen's Compensation Act, 1923; Industrial Disputes Act, 1947; Consumer Protection Act, 1986 (updated to the 2019 Act); Competition Act, 2002; and numerous other legal statutes as amended over time by the Parliament.

The legal environment plays a crucial role in governing business operations, ensuring compliance, and protecting the rights of businesses, employees, and consumers alike. It establishes the rules and regulations under which businesses must function, covering areas such as corporate governance, labor relations, competition, and consumer rights. Businesses must navigate this intricate legal framework to ensure they operate ethically, responsibly, and in accordance with the law, minimizing legal risks and maximizing opportunities for growth and success. Understanding and adhering to the legal environment is paramount for businesses to thrive in a complex regulatory landscape.

---

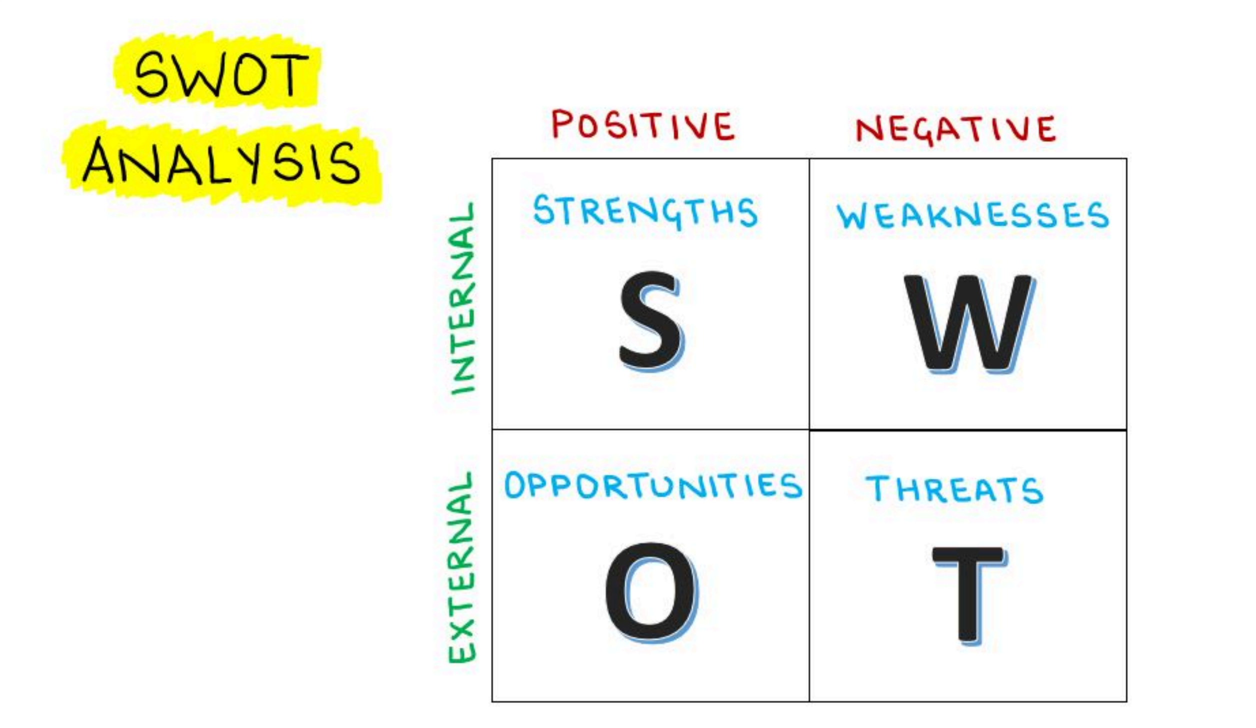
3. Elements of Business Environment

Environmental factors are the elements and conditions in the broader environment that can affect an organization's operations, strategies, and performance. These factors encompass various aspects related to the natural environment, sustainability, and the impact of business activities on ecosystems.

---

4. SWOT Analysis

A scan of the internal and external environment is an important part of the strategic planning process. Environmental factors internal to the firm usually can be classified as strengths (S) or weaknesses (W), and those external to the firm can be classified as opportunities (O) or threats (T). Such an analysis of the strategic environment is referred to as a SWOT analysis.



The SWOT analysis provides information that is helpful in matching the firm's resources and capabilities to the competitive environment in which it operates. As such, it is instrumental in strategy formulation and selection.

Strengths

A firm's strengths are its resources and capabilities that can be used as a basis for developing a competitive advantage. Examples of such strengths include:

- patents
- strong brand names
- good reputation among customers
- cost advantages from proprietary know-how
- exclusive access to high grade natural resources
- favorable access to distribution networks

Weaknesses

The absence of certain strengths may be viewed as a weakness. For example, each of the following may be considered weaknesses:

- lack of patent protection
- a weak brand name
- poor reputation among customers
- high-cost structure
- lack of access to the best natural resources
- lack of access to key distribution channels

In some cases, a weakness may be the flip side of a strength. For example, take the case in which a firm has a large amount of manufacturing capacity. While this capacity may be considered a strength that competitors do not share, it also may be considered a weakness if the large investment in manufacturing capacity prevents the firm from reacting quickly to changes in the strategic environment.

Opportunities

The external environmental analysis may reveal certain new opportunities for profit and growth. Some examples of such opportunities include:

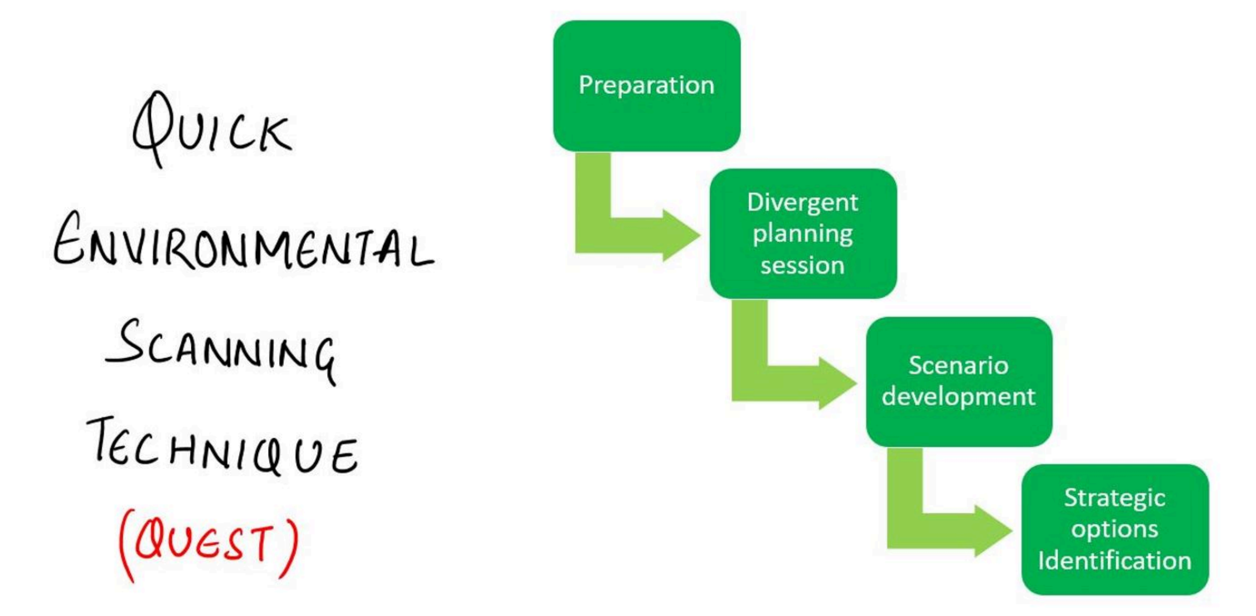
- an unfulfilled customer need
- arrival of new technologies
- loosening of regulations
- removal of international trade barriers

Threats

Changes in the external environmental also may present threats to the firm. Some examples of such threats include:

- shifts in consumer tastes away from the firm's products
- emergence of substitute products
- new regulations
- increased trade barriers

5. Quick Environmental Scanning Technique (QUEST)



In 1982, Prof. Burt Nanus develop the Quick Environmental Scanning Technique (QUEST). The QUEST is a future research process that permits managers to develop a view of the external environment. This permits managers to decisions were to add more resources for further analysis. The QUEST technique consists of 4 phases. These are: (i) preparation, (ii) divergent planning session (iii) scenario development, (iv) strategic options identification.

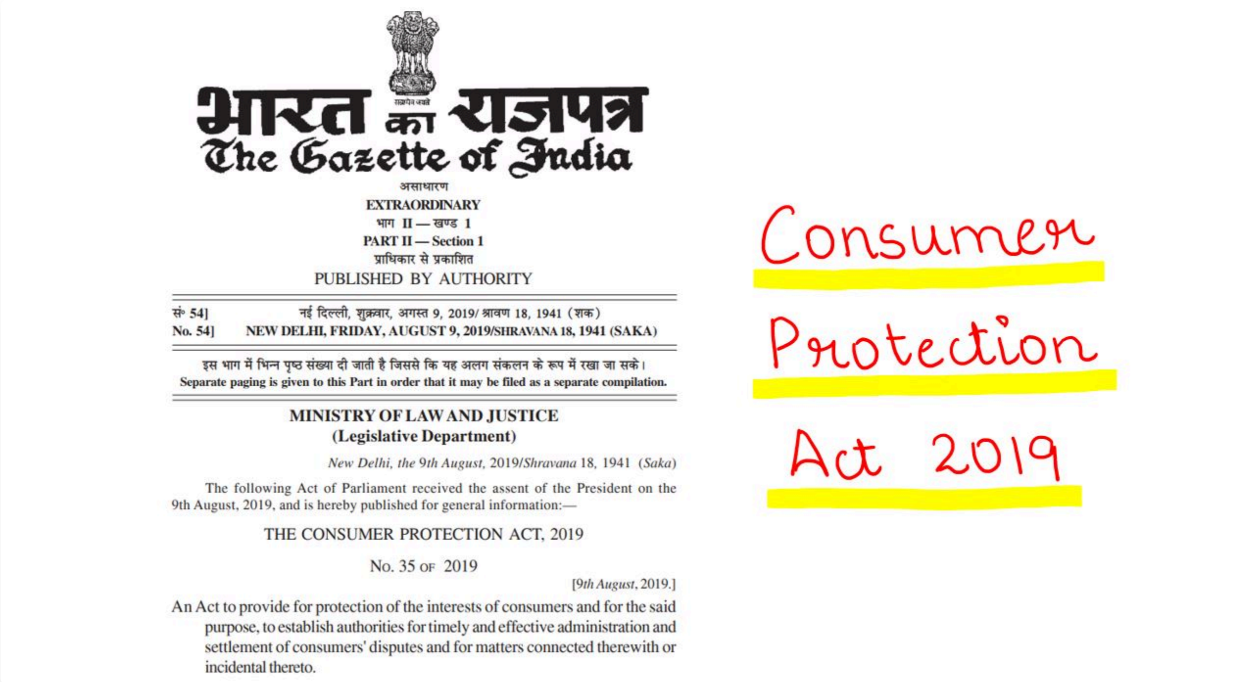
In the **preparation phase**, a notebook containing the major environmental trends and events which are pertinent to the company is developed.

The **second phase**, divergent planning session, is the 1-day retreat. By that day, all the participants usually had already read the notebook (called intelligence file). This retreat follows a structured series of discussions about definition of the business, its KPIs and what critical trends and events that can affect the future of the firm exist.

The **third phase**, scenario development, is based upon the data gathered at the previous phase. This data is summarized in two sections of the report. First the mission, purposes and objectives of the institution. Second a set of possible scenarios for the major issues that can impact the existence of the firm.

The **last phase**, Strategic options identification, consist in holding a half-day strategy meeting to discuss the report develop in the third phase and decide what critical decisions should be made base on it. In this meeting also strengths and weakness of the firm are discussed and feasible strategic options to deal with the evolving external environments. Lastly the strategic options are ranked and teams are formed to further develop the high priority strategies.

1. Introduction



भारत का राजपत्र
The Gazette of India
असाधारण
EXTRAORDINARY
भाग II — खण्ड 1
PART II — Section 1
प्राधिकार से प्रकाशित
PUBLISHED BY AUTHORITY

सं॰ 54] नई दिल्ली, शुक्रवार, अगस्त 9, 2019/ श्रावण 18, 1941 (शक)
No. 54] NEW DELHI, FRIDAY, AUGUST 9, 2019/SHRAVANA 18, 1941 (SAKA)

इस भाग में भिन्न पृष्ठ संख्या दी जाती है जिससे कि यह अलग संकलन के रूप में रखा जा सके।
Separate paging is given to this Part in order that it may be filed as a separate compilation.

MINISTRY OF LAW AND JUSTICE
(Legislative Department)

New Delhi, the 9th August, 2019/*Shravana* 18, 1941 (*Saka*)

The following Act of Parliament received the assent of the President on the 9th August, 2019, and is hereby published for general information:—

THE CONSUMER PROTECTION ACT, 2019

No. 35 OF 2019

[*9th August*, 2019.]

An Act to provide for protection of the interests of consumers and for the said purpose, to establish authorities for timely and effective administration and settlement of consumers' disputes and for matters connected therewith or incidental thereto.

In India, earlier, we had the 'Consumer Protection Act, 1986'. The Consumer Protection Bill, 2019 was passed by both houses of Parliament in August 2019. Now, the bill has replaced the 'Consumer Protection Act, 1986' with the 'Consumer Protection Act, 2019'.

Thus, now we have the new 'Consumer Protection Act, 2019', in place. It is applicable to whole of India, including Jammu & Kashmir.

The Consumer Protection Act, 2019 applies to all goods and services unless otherwise expressly notified by the Central Government. It is indeed a very unique and highly progressive piece of social welfare legislation and is acclaimed as the magna carta of Indian consumers. The objective of the Act is to provide for protection of the interests of consumers and for the said purpose, to establish authorities for timely and effective administration and settlement of consumers' disputes.

2. Definitions

Some of the relevant definitions provided in the Act are given below.

Consumer

Consumer is defined as a person who buys any good or avails a service for a consideration. It does not include a person who obtains a good for resale or a good or service for commercial purpose. It covers transactions through all modes including offline, and online through electronic means, teleshopping, multi-level marketing or direct selling.

Advertisement

Advertisement means any audio or visual publicity, representation, endorsement or pronouncement made by means of light, sound, smoke, gas, print, electronic media, internet or website and includes any notice, circular, label, wrapper, invoice or such other documents.

Complainant

Complainant means:

- a consumer; or
- any voluntary consumer association; or
- the Central Government or any State Government; or
- the Central Authority; or
- one or more consumers, where there are numerous consumers having the same interest; or
- in case of death of a consumer, his legal heir or legal representative; or
- in case of a consumer being a minor, his parent or legal guardian.

Complaint

Complaint means any allegation in writing, made by a complainant about:

- an unfair contract, unfair trade practice or a restrictive trade practice; or
- defective goods; or
- deficient services; or
- charging a price in excess of the price -
  - fixed by any law
  - displayed on the goods or any package
  - displayed on the exhibited price list
  - agreed between the parties.
- hazardous or unsafe goods or services; or
- product liability action lies against the manufacturer, seller or service provider.

Consumer Rights

Consumer Rights include:

- right to be **protected against the marketing of** goods, products or services which are hazardous to life and property;
- **right to be informed about** the quality, quantity, potency, purity, standard and price of goods, products or services;
- **right to be assured, wherever possible**, access to a variety of goods, products or services at competitive prices;
- **right to be heard and to be assured** that consumer's interests will receive due consideration at appropriate fora;
- **right to seek redressal against unfair trade practices** or restrictive trade practices or unscrupulous exploitation of consumers; and
- **right to consumer awareness**.

Defect

Defect means any fault, imperfection or shortcoming in the quality, quantity, potency, purity or standard of any goods or products.

Deficiency

Deficiency means any fault, imperfection, shortcoming or inadequacy in the quality, nature of any Service.

Direct selling

Direct selling means marketing, distribution and sale of goods or provision of services through a network of sellers, other than through a permanent retail location.

Product liability

Product liability means the responsibility of a product manufacturer or product seller, of any product or service, to compensate for any harm caused to a consumer by such defective product.

Product liability action

Product liability action means a complaint filed by a person before a District Commission or State Commission or National Commission.

Restrictive trade practice

Restrictive trade practice means a trade practice which tends to bring about manipulation of price or its conditions of delivery or to affect flow of supplies in the market relating to goods or services in such a manner as to impose on the consumers unjustified costs or restrictions.

Misleading Advertisement

Misleading Advertisement means an advertisement, which:

- falsely describes such product or service; or
- gives a false guarantee to, or is likely to mislead the consumers as to the nature, substance, quantity or quality of such product or service; or
- conveys an express or implied representation which would constitute an unfair trade practice; or
- deliberately conceals important information.

Spurious goods

Spurious goods means such goods which are falsely claimed to be genuine.

Unfair trade practice

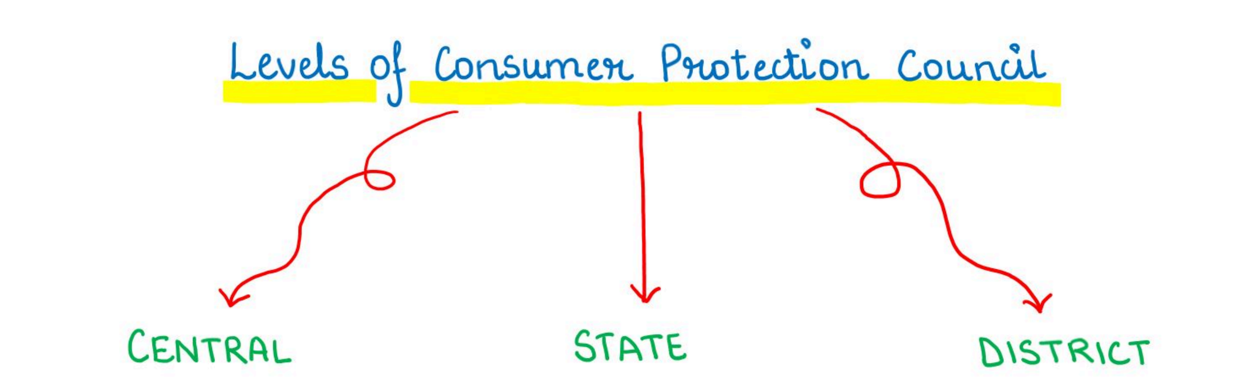
Unfair trade practice means a trade practice which, for the purpose of promoting the sale, use or supply of any goods or for the provision of any service, adopts any unfair method or unfair or deceptive practice. Unfair trade practices include:

- any statement which falsely represents that the goods are of a particular standard, quality, quantity, grade, composition, style or model;
- any statement which falsely represents that the services are of a particular standard, quality or grade;
- any statement which falsely represents any re-built, second-hand, renovated, reconditioned or old goods as new goods;
- any statement which represents that the goods or services have sponsorship, approval, performance, characteristics, accessories, uses or benefits which such goods or services do not have;
- any statement which makes a false or misleading representation concerning the need for, or the usefulness of, any goods or services;
- any statement which gives to the public any warranty or guarantee of the performance, efficacy or length of life of a product or of any goods that is not based on an adequate or proper test;
- any statement which makes a misleading warranty or guarantee of a product or of any goods or services;
- any statement which materially misleads the public concerning the price;
- any statement which gives false or misleading facts disparaging the goods, services or trade of another person;
- permits the publication of any misleading advertisement;
- permits offering of gifts, prizes, contest, lottery, with the intention of not providing them, not disclosing full information;
- permits the sale or supply of goods that do not comply with the standards prescribed by competent authority relating to performance, composition contents, design, construction, finishing, packaging or safety;
- permits the hoarding or destruction of goods, for raising the price;
- manufacture of spurious goods.

3. Consumer Protection Councils at 3 levels

Consumer Protection Councils are established at Central, State and District level. These Councils are known as:

1. Central Council
2. State Council
3. District Council



The composition, objectives and other features of these Councils are described below.

Central Council

The Act provides for the Central Government to establish Central Consumer Protection Council to be known as the **Central Council**. The Central Council shall be an advisory council and consist of the following members:

- the Minister-in-charge of the Department of Consumer Affairs – Chairperson
- such number of other official or non-official members representing such interests as may be prescribed.

The Central Council shall meet at least once every year.

The objective of the Central Council is to render advice on promotion and protection of consumers' rights under the Act.

State Council

Similarly, it provides for the State Government to establish a State Consumer Protection Council for such State and to be known as the **State Council.** The State Council shall be an advisory council and consist of the following members:

- the Minister-in-charge of Consumer Affairs in the State Government – Chairperson.
- such number of other official or non-official members representing such interests as may be prescribed.
- such number of other official or non-official members, not exceeding 10, as may be nominated by the Central Government.

The State Council shall meet at least once every year.

The objective of every State Council is to render advice on promotion and protection of consumer rights under this Act within the State.

District Council

The State Government shall also establish a District Consumer Protection Council to be known as the **District Council**. The District Council shall be an advisory council and consist of the following members:

- the Collector of the District - Chairperson
- such number of other official and non-official members representing such interests as may be prescribed.

The District Council shall meet at least twice a year.

The objective of every District Council is to render advice on promotion and protection of consumer rights under this Act within the district.

4. Central Consumer Protection Authority (CCPA)

The Act requires the Central Government to establish a Central Consumer Protection Authority to be known as the Central Authority to regulate matters relating to:

- violation of rights of consumers,
- unfair trade practices,
- false or misleading advertisements &
- promotion, protection and enforcement of rights of consumers.

The Central Authority shall consist of a Chief Commissioner and such number of other Commissioners as may be prescribed, to be appointed by the Central Government. It will carry out the following functions, including:

- inquiring into violations of consumer rights, investigating and launching prosecution at the appropriate forum;
- passing orders to recall goods or withdraw services that are hazardous, reimbursement of the price paid, and discontinuation of the unfair trade practices;
- issuing directions to the concerned trader/ manufacturer/ endorser/ advertiser/ publisher to either discontinue a false or misleading advertisement, or modify it;
- imposing penalties, and;
- issuing safety notices to consumers against dangerous or unsafe goods and services.

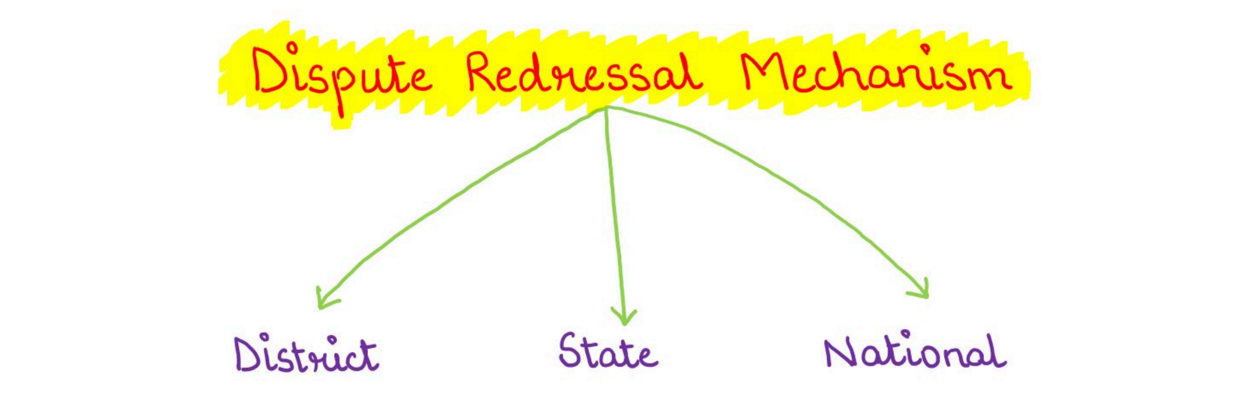
The Central Government may make rules to provide for the qualifications for appointment, method of recruitment, procedure for appointment, term of office, salaries and allowances, resignation, removal and other terms and conditions of the service of the Chief Commissioner and Commissioners of the Central Authority.

The Central Government may appoint a Director-General and such number of Additional Director-General, Director, Joint Director, Deputy Director and Assistant Director, from amongst persons who have experience in investigation and possess such qualifications.

The Central Authority shall have an Investigation Wing headed by a Director General for the purpose of conducting inquiry or investigation.

A complaint relating to violation of consumer rights or unfair trade practices or false or misleading advertisements may be forwarded either in writing or in electronic mode, to any one of the authorities, namely, (a) District Collector or (b) Commissioner of Regional Office or (c) Central Authority.

5. Dispute Rederssal Mechanism



The Act also provides for the establishment of Consumer Dispute Redressal Commission at 3 levels – District, State & National. These are discussed next.

5. Dispute Rederssal Mechanism

Composition

The State Government shall, establish a District Consumer Disputes Redressal Commission, to be known as the District Commission, in each district of the State. Each District Commission shall consist of:

- a President; and
- not less than 2 and not more than prescribed members, in consultation with the Central Government.

The Central Government may make rules for the qualifications, method of recruitment, procedure for appointment, term of office, resignation and removal of the President and members.

The State Government may make rules to provide for salaries and allowances and other terms and conditions of services of the President, and members of the District Commission.

Applicant

A complaint may be filed with a District Commission by:

- the consumer, or
- any recognised consumer association, or
- one or more consumers, where there are numerous consumers having the same interest, or
- the Central Government, the Central Authority or the State Government.

Jurisdiction: As per 2019 Act, the District Commission had jurisdiction to entertain complaints where the value of the goods or services paid as consideration does not exceed Rs 1 Crore. In Dec 2021, it was changed to **Rs 50 lakhs.**

Procedure

Every proceeding before the District Commission shall be conducted by the President of that Commission and at least 1 member thereof, sitting together.

On receipt of a complaint, the District Commission may admit the complaint or reject the same. Before rejecting, the complainant shall be given an opportunity of being heard. In any case, the admissibility of the complaint shall ordinarily be decided within 21 days.

If parties agree for settlement, at any stage, the District Commission may direct the parties to give in writing, within 5 days, consent to have their dispute settled by mediation.

The District Commission shall refer a copy of the admitted complaint, to the opposite party within 21 days from the date of its admission. It shall direct the opposite party to give his version of the case within 30 days, which may be extended by 15 days.

The District Commission may refer the sample of goods (for testing) to the appropriate laboratory, which will report its findings within 45 days. The fees for appropriate laboratory will be paid by the complainant. A copy of report will be sent to the opposite party.

Every complaint shall be disposed within 3 months. It shall be decided within 5 months, if it requires analysis or testing of commodities.

The District Commission may issue an order to the opposite party, directing him:

- to remove the defect pointed out by the appropriate laboratory from the goods;
- to replace the goods with new goods;
- to return to the complainant the price/charges, along with interest;
- to pay compensation to the consumer for any loss or injury suffered;
- to pay compensation in a product liability action;
- to remove the defects in goods or deficiencies in the services;
- to discontinue the unfair trade practice or restrictive trade practice and not to repeat them;
- not to offer the hazardous or unsafe goods for sale;
- to withdraw the hazardous goods from being offered for sale;
- to cease manufacture of hazardous goods;

- to pay such sum as may be determined by it, if it is of the opinion that loss or injury has been suffered by a large number of consumers who are not identifiable conveniently;
- to issue corrective advertisement to neutralise the effect of misleading advertisement;
- to provide for adequate costs to parties;
- to cease and desist from issuing any misleading advertisement.

Appeal

Any person aggrieved by an order made by the District Commission may prefer an appeal against such order to the State Commission within 45 days. But the applicant has to deposit 50% of that amount, which has been ordered by the District Commission, before appeal is filed.

---

5. Dispute Rederssal Mechanism

Composition

The State Government shall, establish a State Consumer Disputes Redressal Commission, to be known as the State Commission. Each State Commission shall consist of:

- a President; and
- not less than 4 and not more than prescribed members, in consultation with the Central Government.

The Central Government may make rules for the qualifications, method of recruitment, procedure for appointment, term of office, resignation and removal of the President and members.

The State Government may make rules to provide for salaries and allowances and other terms and conditions of service of the President, and members of the State Commission.

Jurisdiction

The State Commission shall have jurisdiction to entertain:

- complaints where the value of the goods or services **exceeds Rs 50 lakh, but does not exceed Rs 2 Crores.**
- complaints against unfair contracts, where the value of goods or services paid as consideration does not exceed Rs 2 Crores.
- appeals against the orders of any District Commission within the State.

Procedure

The State Commission may also, at any stage of the proceeding, transfer any complaint pending before a District Commission to another District Commission within the State.

The process of disposal of case and timelines are same as District Commission.

Appeal

Any person aggrieved by an order made by the State Commission may prefer an appeal against such order to the National Commission within a period of 30 days from the date of the order. But the applicant has to deposit 50% of that amount, which has been ordered by the State Commission, before appeal is filed.

---

5. Dispute Rederssal Mechanism

Composition

The Central Government shall establish a National Consumer Disputes Redressal Commission, to be known as the National Commission. The National Commission shall consist of:

- a President; and
- not less than 4 and not more than prescribed number of members.

The Central Government may make rules to provide for qualifications, appointment, term of office, salaries and allowances, resignation, removal and other terms and conditions of service of the President and members of the National Commission.

The age limit for holding office for the President is 70 years and for other members is 67 years.

Jurisdicition

The National Commission shall have jurisdiction to entertain:

- complaints where the value of the goods or services paid as consideration **exceeds Rs 2 crore.**
- complaints against unfair contracts, where the value of goods or services paid as consideration exceeds Rs 2 crores.
- appeals against the orders of any State Commission;
- appeals against the orders of the Central Authority.

The process of disposal of case and timelines are same as District/ State Commission.

Appeal, Limitation Period, Penalties

Any person, aggrieved by an order made by the National Commission may prefer an appeal against such order to the Supreme Court within a period of 30 days from the date of the order. But the applicant has to deposit 50% of that amount, which has been ordered by the National Commission, before appeal is filed.

Note that, an appeal filed before the State Commission or the National Commission, shall be made to dispose within a period of 90 days from the date of its admission.

The District Commission, the State Commission or the National Commission shall not admit a complaint unless it is filed within 2 years from the date on which the cause of action has arisen.

Whoever fails to comply with any order made by the District Commission or the State Commission or the National Commission shall be punishable with imprisonment from 1 month to 3 years or with fine from Rs 25,000 to Rs 1,00,000, or with both.

6. Miscellaneous Provisions

Mediation

The State Government shall establish, by notification, a consumer mediation cell to be attached to each of the District Commissions and the State Commissions of that State.

Similarly, the Central Government shall establish, by notification, a consumer mediation cell to be attached to the National Commission and each of the regional Benches.

Product Liability

A Product liability action may be brought by a complainant against a product manufacturer or a product service provider or a product seller, as the case may be, for any harm caused to him on account of a defective product. A product manufacturer shall be liable in a product liability action, if:

- the product contains a manufacturing defect; or
- the product is defective in design; or
- there is a deviation from manufacturing specifications; or
- the product does not conform to the express warranty; or
- the product fails to contain adequate instructions of correct usage to prevent any harm or any warning regarding improper or incorrect usage.

Offences and Penalties

Penalty for non-compliance of direction of Central Authority (CCPA) – Imprisonment up to 6 months or with fine up to Rs. 20 Lakhs or both.

Punishment for false or misleading Advertisement – Imprisonment up to 2 years and with fine up to 10 Lakhs. For every subsequent offence, imprisonment up to 5 years and with fine up to Rs. 50 Lakhs. The endorser of a misleading advertisement can also be prohibited (by CCPA) from endorsing that particular product or service for a period of up to 1 year. For every subsequent offence, the period of prohibition may extend to 3 years. However, there are certain exceptions when an endorser will not be held liable for such a penalty.

Punishment for manufacturing for sale or storing, selling or distributing or importing products containing adulterant –

- *If it does not result in any injury to the consumer* - Imprisonment up to 6 months and with fine up to Rs. 1 Lakh.
- *If causes injury not amounting to grievous hurt to the consumer* - Imprisonment up to 1 year and with fine up to Rs. 3 Lakhs.
- *If causes injury resulting in grievous hurt to the consumer* - Imprisonment up to 7 years and with fine up to 5 Lakhs (cognizable and non-bailable offence).
- *If results in the death of a consumer* - Imprisonment not less than 7 years which may extent to imprisonment for life and with fine up to Rs. 10 Lakhs (cognizable and non-bailable offence).

Punishment for manufacturing for sale or for storing or selling or distributing or importing spurious goods –

- *If causes injury not amounting to grievous hurt to the consumer* - Imprisonment up to 1 year and with fine up to 3 Lakhs.
- *If causes injury resulting in grievous hurt to the consumer* - Imprisonment up to 7 years and with fine up to 5 Lakhs (cognizable and non-bailable offence).
- *If results in the death of a consumer* - Imprisonment not less than 7 years and with fine up to 10 Lakhs (cognizable and non-bailable offence).

7. Consumer Organizations

Consumer Organizations have been active all over the world to promote and protect consumer interests. A number of such organisations have also been set up in different parts of India. It is felt that neither it is possible to discipline all members of the business community through moral sanctions nor administrate orders and legislative provisions can ensure consumer protection, without the active involvement of consumer organizations. Now with an increasing number of consumer organisations involved in consumer protection, the consumer movement has a strong foothold in India and helping individuals to seek quick and adequate redressal of their grievances.

Voluntary Consumer Organisations (VCOs) are those organisations which aim at protecting consumer rights of the people, and are non-profit making. They have voluntary decision-making structure, and are free from the interference of the government. Another important aspect of the consumer organisations is that they try to solve the disputes before going to the consumer forums when approached for help. It is due to this fact that the Government is encouraging the formation of consumer organisations in India.

A wide network of VCOs is doing commendable work to raise awareness amongst consumers, to strengthen consumer protection and welfare and to provide counselling, guidance and mediation services. These VCOs are supported through grants for diverse projects including comparative testing of products & services and dissemination of the findings.

A VCO can be registered under the Companies Act, 2013 or any other law for the time being in force such as the Societies Registration Act, 1860, the Indian Trust Act, 1908, etc. In any case, the purpose of forming such organisations should be for protecting the interest of consumers.

7. Consumer Organizations

Consumer organisations function under different names such as consumer councils, consumer consultancy, consumer social trust, consumer guidance society and so on. Some of these functions performed by consumer organisations are discussed below.

1. Accelerating Consumer Awareness/ Educating Consumers

The first priority of a consumer organisation is to accelerate consumer awareness towards their rights. To accomplish this task, following activities are performed by them:

- To publish brochures, journals and monographs.
- To arrange conferences, seminars and workshops.
- To educate consumers to help themselves.
- To provide special education to women about consumerism.
- To encourage consumers to follow desirable consumption standards.

2. Collecting Data on Different Products and testing them

These organisations collect samples of different products from time to time and test them. After that the results of the tests are declared to public. In this way, these organisations provide prior information to consumers about the authenticity of product and protect them. Apart from this, these organisations also work in conducting investigation/ research on consumer's issues about the product standards.

3. Filing Suit on Behalf of Consumers

Whenever a consumer fails to raise his voice of protest regarding his complaints, these consumers' organisations come to his rescue and file a case in the court. By rendering this service to consumers, the consumers get a feeling that they are not alone in their struggle. They also run voluntary complaint centres for the guidance of consumers.

4. Organising Protests

The consumers' organisations play a significant role in eliminating the evils of adulteration, hoarding, black-marketing, and under-weight selling. Whenever there is an unnecessary rise in the prices of certain things, the consumers' organisation raise a voice of protest against it. They prepare films related to adulteration in food products, ill effects of medicines and legal acts related to consumer protection. Many a times, exhibitions are arranged to bring awareness among the consumers against spurious and adulterated products.

5. Helping Educational Institutions

These organisations assist educational institutions in designing courses on consumer rights.

6. Promoting Network of Consumer Associations

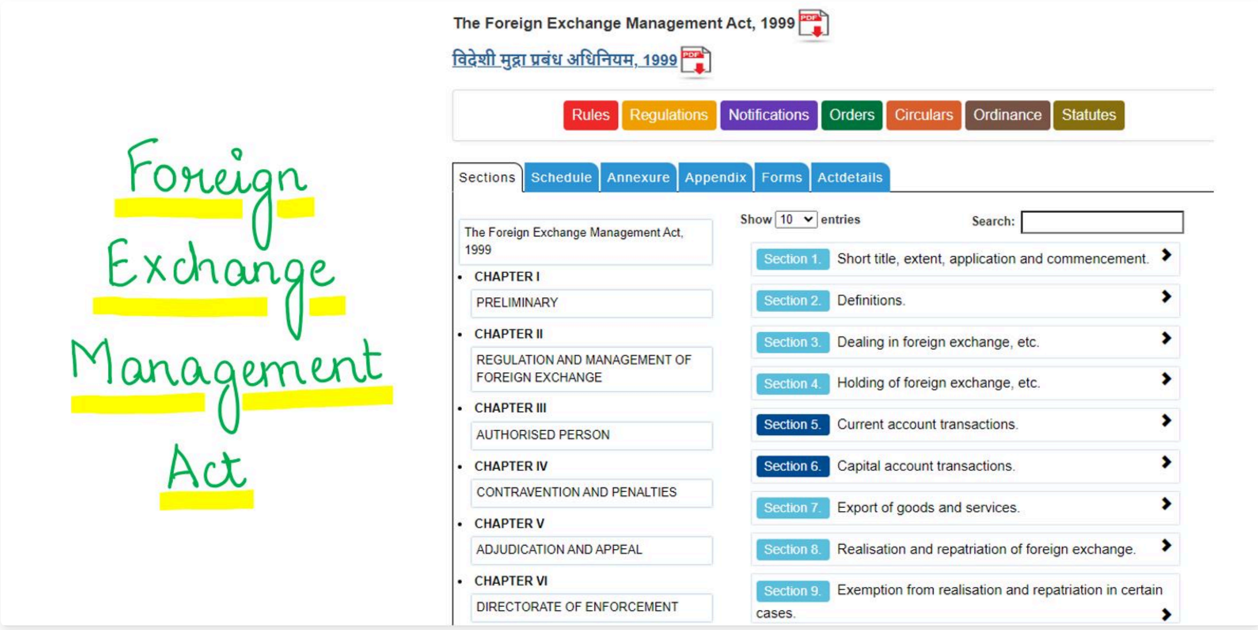
Consumer organisations are trying to grow their numbers. They want to cover all the regions of the country so that consumers of all the regions are benefitted by their services. Their effort is to form a federation at the apex level and then through the medium of the federation, reach at State and district level.

7. Extending Support to Government

Consumer organisations keep informing the Government agencies about adulteration, artificial scarcity, inferior quality products, etc.

1. Introduction

The agenda for changes in foreign exchange regulations were initiated by the report of High Level Committee on Balance of Payments (Chairman Dr. C. Rangarajan) 1993.



The Foreign Exchange Management Act (1999) or in short **FEMA** has been introduced as a replacement for earlier Foreign Exchange Regulation Act, 1973 known in short as FERA. FEMA became an act on the 1st day of June, 2000. FEMA was introduced because the FERA didn’t fit in with post-liberalization policies. A significant change that the FEMA brought with it was that it made all offenses regarding foreign exchange civil offenses, as opposed to criminal offenses as dictated by FERA.

The main objective behind the Foreign Exchange Management Act (1999) is to consolidate and amend the law relating to foreign exchange with the objective of facilitating external trade and payments. It was also formulated to promote the orderly development and maintenance of foreign exchange market in India.

The approach of FEMA thus fundamentally differed from that of FERA principally in two respects viz.

1. from conservation to management, and
2. from control to facilitation.

Relevant Sections of the Act are discussed next.

2. Definitions

Relevant definitions provided in the Act are given below.

Authorized Person

Authorised Person means an authorised dealer, money changer, off-shore banking unit or any other person for the time being authorised to deal in foreign exchange or foreign securities.

Currency

Currency includes all currency notes, postal notes, postal orders, money orders, cheques, drafts, travellers cheques, letters of credit, bills of exchange and promissory notes, credit cards or such other similar instruments, as may be notified by the Reserve Bank.

Current account transaction

Current account transaction means a transaction other than a capital account transaction and without prejudice to the generality of the foregoing such transaction includes,—

- payments due in connection with foreign trade, other current business, services, and short-term banking and credit facilities in the ordinary course of business,
- payments due as interest on loans and as net income from investments,
- remittances for living expenses of parents, spouse and children residing abroad, and
- expenses in connection with foreign travel, education and medical care of parents, spouse and children.

Foreign exchange

Foreign exchange means foreign currency and includes, -

- deposits, credits and balances payable in any foreign currency,
- drafts, travellers cheques, letters of credit or bills of exchange, expressed or drawn in Indian currency but payable in any foreign currency,
- drafts, travellers cheques, letters of credit or bills of exchange drawn by banks, institutions or persons outside India, but payable in Indian currency.

Foreign security

Foreign security means any security, in the form of shares, stocks, bonds, debentures or any other instrument denominated or expressed in foreign currency and includes securities expressed in foreign currency, but where redemption or any form of return such as interest or dividends is payable in Indian currency.

Person

The Person includes:

- an individual,
- a Hindu undivided family,
- a company,
- a firm,
- an association of persons or a body of individuals, whether incorporated or not,
- every artificial juridical person, not falling within any of the preceding sub-clauses, and
- any agency, office or branch owned or controlled by such person.

Person resident in India

Person resident in India means—

(i) a person residing in India for more than 182 days during the course of the preceding financial year but does not include—

(A) a person who has gone out of India or who stays outside India, in either case -

- for or on taking up employment outside India, or
- for carrying on outside India a business or vocation outside India, or
- for any other purpose, in such circumstances as would indicate his intention to stay outside India for an uncertain period;

(B) a person who has come to or stays in India, in either case, otherwise than -

- for or on taking up employment in India, or
- for carrying on in India a business or vocation in India, or
- for any other purpose, in such circumstances as would indicate his intention to stay in India for an uncertain period.

(ii) any person or body corporate registered or incorporated in India,

(iii) an office, branch or agency in India owned or controlled by a person resident outside India,

(iv) an office, branch or agency outside India owned or controlled by a person resident in India.

---

3. Section 3 & 4

The provisions of Section 3 and 4 are given below.

Sec 3: Dealing in foreign exchange

No person shall -

- deal in or transfer any foreign exchange or foreign security to any person not being an authorised person;
- make any payment to or for the credit of any person resident outside India in any manner;
- receive otherwise through an authorised person, any payment by order or on behalf of any person resident outside India in any manner.
- enter into any financial transaction in India as consideration for acquisition/creation/transfer of a right to acquire, any asset outside India by any person.

Sec 4: Holding of foreign exchange

Save as otherwise provided in this Act, no person resident in India shall acquire, hold, own, possess or transfer any foreign exchange, foreign security or any immovable property situated outside India.

---

4. Section 5 & 6

The provisions of Section 5 and 6 are given below.

Sec 5: Current account transactions

Any person may sell or draw foreign exchange to or from an authorised person if such sale or drawal is a current account transaction. The Central Government may, in public interest and in consultation with the Reserve Bank, impose such reasonable restrictions for current account transactions.

Sec 6: Capital account transactions

Any person may sell or draw foreign exchange to or from an authorised person for a capital account transaction, with following conditions.

The Reserve Bank may, in consultation with the Central Government, specify any restrictions on class or limit of capital account transactions. But the Reserve Bank shall not impose any restriction on the drawal of foreign exchange for payments due on account of amortization of loans or not depreciation of direct investments in the ordinary course of business.

The Central Government may, in consultation with the Reserve Bank, prescribe:

- any class or classes of capital account transactions, not involving debt instruments, which are permissible;
- the limit up to which foreign exchange shall be admissible for such transactions; and
- any conditions which may be placed on such transactions.

The Reserve Bank may, by regulations prohibit, restrict or regulate the following:

- transfer or issue of any foreign security by a person resident in India;
- transfer or issue of any security by a person resident outside India;
- transfer or issue of any security or foreign security by any branch, office or agency in India of a person resident outside India;
- any borrowing or lending in foreign exchange in whatever form or by whatever name called;
- any borrowing or lending in rupees in whatever form or by whatever name called between a person resident in India and a person resident outside India;
- deposits between persons resident in India and persons resident outside India;
- export, import or holding of currency or currency notes;
- transfer of immovable property outside India, other than a lease not exceeding 5 years, by a person resident in India;
- acquisition or transfer of immovable property in India, other than a lease not exceeding 5 years, by a person resident outside India;
- giving of a guarantee or surety in respect of any debt, obligation or other liability incurred - (i) by a person resident in India and owed to a person resident outside India; or (ii) by a person resident outside India.

A person resident in India may hold, own, transfer or invest in foreign currency, foreign security or any immovable property situated outside India if such currency, security or property was acquired, held or owned by such person when he was resident outside India or inherited from a person who was resident outside India.

A person resident outside India may hold, own, transfer or invest in Indian currency, security or any immovable property situated in India if such currency, security or property was acquired, held or owned by such person when he was resident in India or inherited from a person who was resident in India.

5. Section 7 to 12

Section 7 to 12 are given below.

Sec 7: Export of Goods and Services

Every exporter of services shall furnish to the Reserve Bank a declaration in such form and in such manner as may be specified, containing the true and correct material particulars in relation to payment for such services.

Sec 8: Realisation and repatriation of foreign exchange

Where any amount of foreign exchange is due or has accrued to any person resident in India, such person shall take all reasonable steps to realise and repatriate to India such foreign exchange within such period and in such manner as may be specified by the Reserve Bank.

Sec 10: Authorised person

The Reserve Bank may, authorise any person to be known as authorised person to deal in foreign exchange or in foreign securities, as an authorised dealer, money changer or off-shore banking unit or in any other manner as it deems fit.

Sec 11 and 12: The Reserve bank has powers to direct or inspect authorized persons.

---

6. Penalties

Provisions related to penalties are given below.

Sec 13: Penalties

If any person contravenes any provision of this Act, liable to a penalty up to thrice the sum involved in such contravention where such amount is quantifiable, or up to 2 lakh rupees where the amount is not quantifiable.

If such contravention is a continuing one, further penalty which may extend to Rs 5000 for every day after the first day during which the contravention continues.

If any person is found to have acquired any foreign exchange, foreign security or immovable property, situated outside India, of the aggregate value exceeding the threshold, liable to a penalty up to three times the sum involved in such contravention and confiscation of the value equivalent. Also punishable with imprisonment for a term which may extend to 5 years and with fine.

No court shall take cognizance of an offence, except as on complaint in writing by an officer not below the rank of Assistant Director.

Sec 15: Power to compound contravention

Any contravention on an application made by the person committing such contravention, be compounded within 180 days from the date of receipt of application by the Director of Enforcement or such other officers of the Directorate of Enforcement and officers of the Reserve Bank of India.

---

7. Authorities

Provisions related to authorities are given below.

Sec 16: Appointment of Adjudicating Authority

For the purpose of adjudication, the Central Government may, appoint Adjudicating Authorities for holding an inquiry in the manner prescribed. Every Adjudicating Authority shall be made to dispose of the complaint finally within one year from the date of receipt of the complaint (other wise shall record periodically the reasons in writing for not disposing of the complaint within 1 year).

Sec 17: Appeal to Special Director (Appeals)

The Central Government shall, appoint one or more Special Directors (Appeals) to hear appeals against the orders of the Adjudicating Authorities. Every appeal shall be filed within 45 days from the date of the order made by the Adjudicating Authority.

Sec 18: Appellate Tribunal

The Appellate Tribunal constituted for the Smugglers and Foreign Exchange Manipulators (Forfeiture of Property) Act, 1976, shall be the Appellate Tribunal for the purposes of this Act. Every appeal shall be filed within a period of 45 days from the date of the order by the Adjudicating Authority or the Special Director (Appeals). The appeal filed before the Appellate Tribunal shall be made by it to dispose of the appeal finally within 180 days from the date of receipt of the appeal. (This was amended after Finance Act, 2017, Earlier FEMA had its own Appellate Tribunal).

Sec 36: Directorate of Enforcement

The Central Government shall establish a Directorate of Enforcement with a Director and such other officers or class of officers as it thinks fit. The officers shall exercise the like powers which are conferred on income-tax authorities under the Income-Tax Act, 1961.

1. Introduction

The Indian economy is characterized by a diverse and vibrant mix of agriculture, industry, and services. India's economic growth has been driven by a young and dynamic workforce, a large consumer base, advancements in technology, and economic liberalization reforms initiated in the early 1990s. The country has become a hub for information technology, software services, and business process outsourcing, contributing substantially to its economic output.

India has undergone significant economic transformations since gaining independence in 1947. Over the years, it has transitioned from a primarily agrarian economy to a more industrialized and service-oriented one.

1. Introduction

India's economic history is shaped by a combination of ancient trade routes, colonial influences, and post-independence policy decisions. Before British colonization, India was a major player in global trade, with a rich history of commerce and economic activities. However, the colonial period had a profound impact on the Indian economy, with the exploitation of resources and significant changes in the agrarian and industrial sectors.

Under the British regime, the economic policies of the government were concerned more with the protection and promotion of British economic interests rather than with the need to develop economic condition of India and its people.

Zamindari System was introduced by, the then, Governor General Lord Cornwallis in 1793 through the 'Permanent Settlement Act'. The Zamindars were recognized as the owner of the land and were given the rights to collect rent from the peasants. The realized amount would be divided into 11 parts and 1/11 of the share belongs to Zamindars and 10/11 of the share belongs to East India Company.

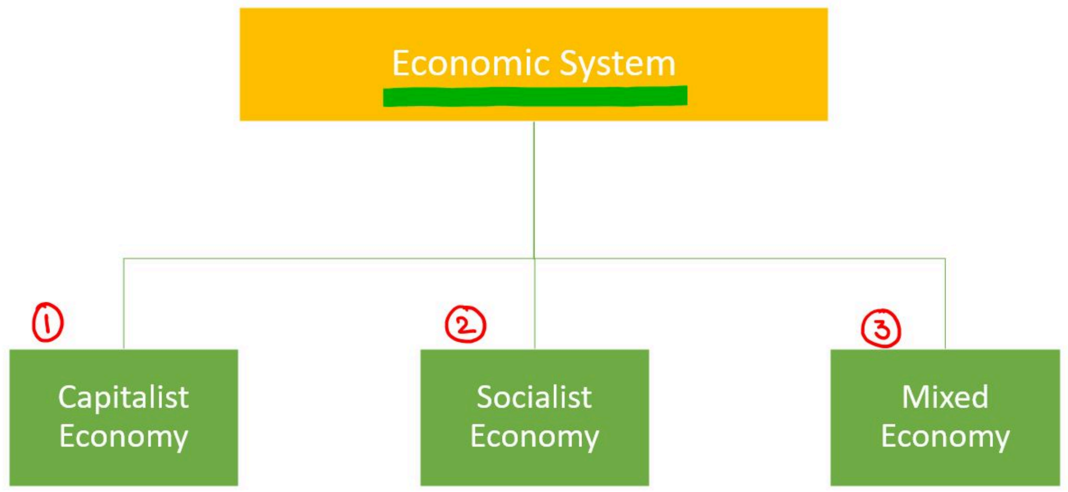
Ryotwari System was introduced by Thomas Munro in 1820. In Ryotwari System, the ownership rights were handed over to the peasants and the British Government collected taxes directly from the peasants.

During this time, the agricultural sector continued to experience stagnation and deterioration despite the fact that the largest section of Indian population depended on it for sustenance. The rule of the British-India government also led to the collapse of India's world-famous handicraft industries without contributing, in any significant manner, to its replacement by a modern industrial base. Lack of adequate public health facilities, occurrence of frequent natural calamities and famines pauperized the hapless Indian people and resulted in engendering high mortality rates.

The primary motive of the colonial government, behind policy of systematically de-industrializing India, was two-fold. The intention was, first, to reduce India to the status of a mere exporter of important raw materials for the upcoming modern industries in Britain and, second, to turn India into a sprawling market for the finished products of those industries so that their continued expansion could be ensured to the maximum advantage of Britain. Due to the ill-effects of de-industrialization, India decided to adopt the 'mixed economy' system post-independence.

1. Introduction

Subsequently, soon after independence, the Indian leaders had to take a decision on the model of development to be followed. The choice was between Socialism with complete ownership and control on the means of production by the state or Capitalism with ownership of the means of production totally in the hands of the private sector with highly limited role of the state.



The **Capitalistic Model** had been adopted by UK, USA and a large number of countries of Western Europe, which emphasized the role of private enterprises in economic development. It was widely held that what was most profitable for the individual was also good for the society and its economic welfare. Perfect harmony could be achieved through the acceptance of the invisible hand of self-interest and the use of the market forces of demand and supply.

Laissez faire is the belief that economies and businesses function best when there is no interference by the government. It comes from the French, meaning to leave alone or to allow to do. It is one of the guiding principles of capitalism and a free market economy.

The **Socialistic Model** of development, on the other hand, was adopted in USSR, after the Russian Revolution and had been accepted in Eastern Europe and China. The model was inspired by the teachings of Karl Marx who believed that the capitalistic system allowed a few powerful capitalists (industrialists, landlords and big businessmen) to exploit the vast majority of workers. To get rid from the exploitation of the capitalist class, all means of production should be brought under state ownership and control, and the economy would have no private enterprise based on self-interest. It was described as the 'totalitarian model of development'.

John M. Keynes, a renowned economist, however, thought that if some of the defects of the capitalist system were removed, it would become an advisable system as it helps to promote competition and efficiency in production. It was much better than the socialism of the authoritarian type, which killed all individual initiatives and deprived the individual of freedom, both economic and political. A compromise was, therefore, suggested between high degree of state intervention promoted in socialist economy on one hand and free enterprise capitalist economy on the other, based on market forces.

1. Introduction

India adopted the concept of mixed economy, which accepts the co-existence of public and private sectors. It also provides for a greater role of the State to direct economic activity as per the Directive Principles of the Indian Constitution. The principle (Article 38(1)) laid down that the State should strive "to promote the welfare of the people by securing and protecting as effectively as, it may, a social order in which justice-social, economic and political, shall form part of all institutions of national life".

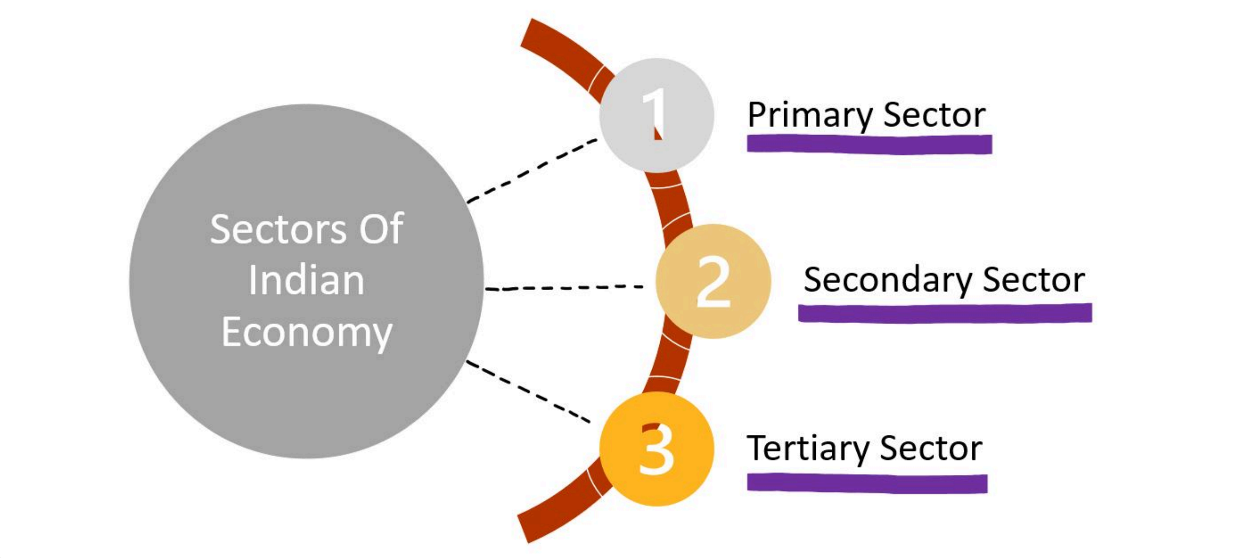
In India, it was thought that the State should ensure that the ownership and control of the material resources of the community is managed in such a manner that it leads to prevention of (a) concentration of wealth in the hands of a few and (b) exploitation of labour. Therefore, in areas which are crucial for the economy and in which private sector investment was not forthcoming, the state should enter the field of production.

It was also observed that since the development of infrastructural facilities like – hydroelectric projects, irrigation and flood control, rail and road transport, communication, etc. required heavy capital investment with a long gestation period and low rate of return, the private sector was unwilling to make the necessary investments.

The public sector was, therefore, assigned the role of developing the necessary infrastructural facilities. Besides, the State is also expected to take care of the social infrastructure in the form of education and health as it is equally important for promoting economic development and ensuring social justice.

Thus, the mixed economy framework, as developed in India, has been trying to reform the capitalist mode of production in order to promote development, self-reliance, and equity with emphasis on helping the weaker sections of the society. In other words, some features of socialist mode of production were integrated into capitalistic mode of production and distribution so as to maximize the social as well as economic welfare. Eventually, the Government of India came up with various 'Industrial Policy Resolutions', which laid emphasis on the mixed economy system and industrialization in India.

2. Sectors of Indian Economy



The Indian Economy can be broadly divided into 3 sectors: Primary, Secondary and Tertiary.

1. Primary Sector: When we produce goods by exploiting natural resources, it is an activity of the primary sector. This is because it forms the base for all other products that we subsequently make. Since most of the natural products we get are from agriculture, dairy, fishing, forestry, this sector is also called agriculture and related sector. Examples are Agriculture, Agriculture related and Mining activities, Dairy, Fishing, Forestry, etc.

2. Secondary Sector: The secondary sector covers activities in which natural products are changed into other forms through ways of manufacturing that we associate with industrial activity. The product is not produced by nature but has to be made and, therefore, some process of manufacturing is essential. Examples are Industries, Construction, etc.

3. Tertiary Sector: These are activities that help in the development of the primary and secondary sectors. These activities, by themselves, do not produce a good but they are an aid or a support for the production process. For example, goods that are produced in the primary or secondary sector would need to be transported by trucks or trains and then, sold in wholesale and retail shops. Since these activities generate services rather than goods, the 'tertiary sector' is also called the 'service sector'.

The contribution made by each of these sectors makes up the structural composition of the economy. In some countries, growth in agriculture contributes more to the GDP growth, while in some countries' the growth in the service sector contributes more to GDP growth. For India, the contribution of services in overall GDP is around 53%, of industries is around 31% and that of agriculture is around 16%. It may be noted that the maximum population in India (more than 50%) is engaged in agriculture.

As countries develop, their economies change, and in India, this change is unique. Typically, agriculture's share in the GDP decreases as industry's share increases, and eventually, the service sector contributes the most to the GDP. However, in India, agriculture's share in the GDP was initially high but was surpassed by the service sector by 1990. This trend was further accelerated after 1991 with globalization.

3. First IPR of 1948

The Government of India passed a resolution in April 1948, that was called the First Industrial Policy Resolution of 1948, which made it clear that India was going to have a mixed economy.

The resolution divided the industrial structure into 4 groups:

1. Basic and strategic industries such as arms and ammunition, atomic energy, railways, etc., shall be the exclusive monopoly of the State.
2. The second group consisted of key industries like coal, iron and steel, shipbuilding, manufacture of telegraph, telephone, wireless apparatus, mineral oils, etc. In such cases, the State took over the exclusive responsibility of all future development and the existing industries were allowed to function for 10 years after which the State would review the situation and explore the necessity of nationalization.
3. In the third group, 18 industries including automobiles, tractors, machine tools, etc., were allowed to be in the private sector subject to government regulation and supervision.
4. All other industries were left open to the private sector. However, the State might participate and/or intervene, if circumstances so demanded.

4. Industrial Policy Resolution (IPR) of 1956

On 30th April, 1956, the Government announced the Industrial Policy Resolution of 1956. The reasons for the revision were:

- introduction of the Constitution of India,
- adoption of a planned economy, and
- declaration by the Parliament that India was going to have a socialist pattern of society.

All these principles were incorporated in the revised industrial policy as its most avowed objectives. This revised policy provided the basic framework for the Government's policy with regard to industries till June 1991.

The 1956 policy emphasizes, inter alia, the need to expand the public sector, to build up a large and growing cooperative sector and to encourage the separation of ownership and management in private industries and, above all, prevent the rise of private monopolies. The 1956 policy has been known as the Economic Constitution of India or the Bible of State Capitalism.

The Resolution classified industries into 3 categories, having regard to the role, which the State would play in each of them:

- Schedule A, consisting of 17 industries, would be the exclusive responsibility of the State.
- Schedule B, consisting of 12 industries, would be open to both the private and public sectors; however, such industries would be progressively state-owned.
- All the other industries not included in these 2 Schedules constituted the third category, which was left open to the private sector. However, the State reserved the right to undertake any type of industrial production.

4. Industrial Policy Resolution (IPR) of 1956

The Industrial Policy Resolution of 1956 laid emphasis on establishment of **Joint Sector Enterprises**. Joint sector is nothing but the extension of idea of mixed economy. Thus, the joint sector enterprises have ownership and control in the hands of both public and private sectors. For example, after independence, the Tatas set up Air India International with the participation of the Government of India. The basic objective of joint sector was that public funds should primarily be used to serve the public interest and that their deployment should not result in undue benefits to a few individuals or business houses. However, there were clashes between the ideologies of Dutt Committee and the Tata Memorandum regarding the concept of 'joint sector enterprises'.

Eventually, both of them came to a conclusion and laid down 4 different types of joint sector enterprises as discussed below.

1. Transforming some of the existing private enterprises into joint sector enterprises by converting their loans from public financial institutions into equity or through fresh equity participation.
2. Setting up new companies by the Central Government with equity participation by both the Government and private investors.
3. Transforming the existing public sector enterprises into joint sector enterprises through its sale of equity shares to private enterprises.
4. Setting up of new enterprises by the State Government or by the State Industrial Development Corporations jointly with the participation of private investors in its equity.

In the pre-1991 period, the joint sector did not make much headway in India but in the post-1991 period, the country experienced growth of all the 4 different forms of joint sector enterprises, especially of the third type, with the disinvestment of the share of public sector enterprises through its sale to the private sector. Thus, in a mixed economy like India, both the public and private sectors face certain limitations of their own. The private sector of the country suffers from paucity of financial resources and public sector suffers from lack of dynamic management. Thus, the setting up of joint sector enterprises provides a compromise solution to provide both the benefit of vast financial resources of the Government and dynamic management efficiency of the private sector.

The Government also issued Industrial Policy Resolutions in 1973, 1977 and 1980.

5. Five Year Plans

A **Plan** spells out how the resources of a nation should be put to use. It should have some general goals as well as specific objectives which are to be achieved within a specified period of time. In India, the plans were of five years' duration and were called Five Year Plans (FYPs). Joseph Stalin implemented the first FYP in the Soviet Union in the late 1920s. After independence, India launched its first FYP in 1951, under socialist influence of first Prime Minister, Jawaharlal Nehru.

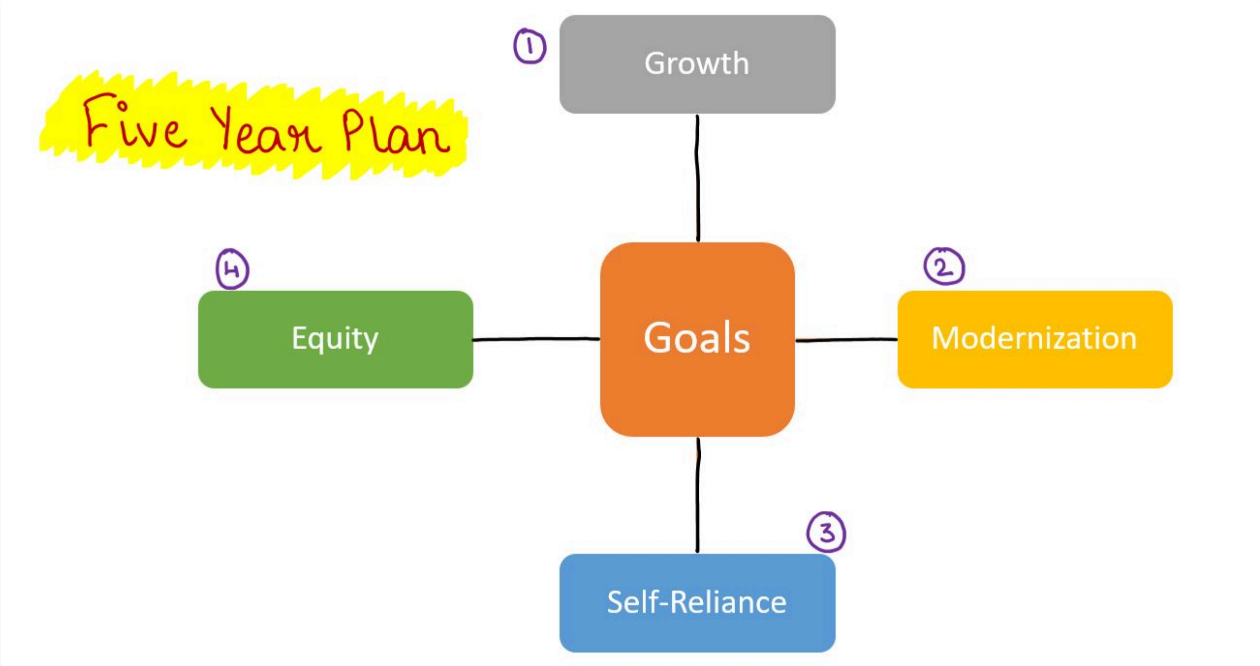
Though, the planned economic development in India began in 1951, with the inception of First Five Year Plan, theoretical efforts had begun much earlier, even prior to the independence. Some of the steps in this direction were:

- Setting up of National Planning Committee by Indian National Congress in 1938,
- Bombay Plan & Gandhian Plan in 1944,
- People's Plan in 1945 (by post war reconstruction Committee of Indian Trade Union), and
- Sarvodaya Plan in 1950 by Jaiprakash Narayan.

However, formal process for Five Year Plans began with setting up of Planning Commission in March 1950 (with Prime Minister as its Chairman). It was in the pursuance of declared objectives of the Government to promote a rapid rise in the standard of living of the people by efficient exploitation of the resources of the country and thereby increasing production and offering opportunities to all for employment in the service of the community. The Planning Commission was neither a constitutional nor a statutory body. It was an extra-constitutional body.

The Planning Commission was charged with the responsibility of making assessment of all resources of the country, augmenting deficient resources, formulating plans for the most effective and balanced utilisation of resources and determining priorities.

5. Five Year Plans



The goals of the Five Year Plans were: growth, modernization, self-reliance and equity. This does not mean that all the five year plans have given equal importance to all of these goals. Due to limited resources, a choice has to be made in each plan about which of the goals is to be given primary importance. Nevertheless, the planners have to ensure that, as far as possible, the policies of the plans do not contradict these 4 goals. These goals are discussed below.

1. Growth

Growth refers to increase in the country's capacity to produce the output of goods and services within the country. It implies either a larger stock of productive capital, or a larger size of supporting services like transport and banking, or an increase in the efficiency of productive capital and services. A good indicator of economic growth, in the language of economics, is steady increase in the Gross Domestic Product (GDP). The GDP of a country is derived from different sectors of the economy, namely, the agricultural sector, the industrial sector and the service sector. The contribution made by each of these sectors makes up the structural composition of the economy.

2. Modernization

To increase the production of goods and services, the producers have to adopt new technology. For example, a farmer can increase the output in the farm by using new seed varieties instead of using the old ones. Hence, adoption of new technology is called 'Modernization'. However, modernization does not refer only to the use of new technology but also to changes in social outlook such as the recognition that women should have the same rights as men.

3. Self-Reliance

A nation can promote economic growth and modernization by using its own resources or by using resources imported from other nations. The first seven five year plans gave importance to self-reliance which means avoiding imports of those goods which could be produced in India itself. This policy was considered a necessity in order to reduce our dependence on foreign countries, especially for food. It is understandable that people who were recently freed from foreign domination should give importance to self-reliance. Further, it was feared that dependence on imported food supplies, foreign technology and foreign capital may make India's sovereignty vulnerable to foreign interference in our policies.

4. Equity

Now growth, modernization and self-reliance, by themselves, may not improve the kind of life which people are living. A country can have high growth, the most modern technology developed in the country itself, and also have most of its people living in poverty. It is important to ensure that the benefits of economic prosperity reach the poor sections as well, instead of being enjoyed only by the rich. So, in addition to growth, modernization and self-reliance, equity is also important. Every Indian should be able to meet his or her basic needs such as food, a decent house, education and health care and inequality in the distribution of wealth should be reduced.

6. Five Year Plans Overview

The First Five-Year Plan (FYP) was launched in 1951 and two subsequent Five-Year Plans were formulated till 1965, when there was a break because of the Indo-Pakistan conflict. Two successive years of drought, devaluation of the currency, a general rise in prices and erosion of resources disrupted the planning process and after three Annual Plans between 1966 and 1969, the fourth Five-year plan was started in 1969.

The Eighth Plan could not take off in 1990 due to the fast changing political situation at the Centre and the years 1990-91 and 1991-92 were treated as Annual Plans. The Eighth Plan was finally launched in 1992, after the initiation of structural adjustment policies.

For the first 8 Plans, the emphasis was on a growing public sector with massive investments in basic and heavy industries, but since the launch of the Ninth Plan in 1997, the emphasis on the public sector has become less pronounced.

The growth targets for the first 3 Plans were set with respect to National Income. In the Fourth Plan, it was Net Domestic Product. In all the Plans thereafter, Gross Domestic Product has been used.

Key Points related to each of the Five Year Plans are discussed next.

6. Five Year Plans Overview

Key points related to the this Plan are listed below.

- It was based on Harrod-Domar Model. The Model suggests that the economy's growth rate depends on the level of saving and the productivity of investment (capital output ratio).
- Influx of refugees, severe food shortage & mounting inflation confronted the country at the onset of the first five-year Plan.
- The Plan focussed on agriculture, price stability, power and transport.
- It was a successful plan primarily because of good harvests in the last two years of the plan. Objectives of rehabilitation of refugees, food self-sufficiency & control of prices were more or less achieved.
- Target Growth: 2.1 %; Actual Growth: 3.6 %

---

6. Five Year Plans Overview

Key points related to the this Plan are listed below.

- Simple aggregative Harrod-Domar Growth Model was again used for overall projections.
- The strategy of resource allocation to broad sectors such as agriculture & industry was based on two & four sector Model prepared by Prof. P. C. Mahalanobis (The Plan is also called 'Mahalanobis Plan').
- The Plan focussed on rapid industrialization - heavy & basic industries. Advocated huge imports through foreign loans.
- Second plan was conceived in an atmosphere of economic stability.
- It was felt that agriculture could be accorded lower priority.
- The Industrial Policy of 1956 was based on establishment of a socialistic pattern of society as the goal of economic policy.
- Acute shortage of Forex led to pruning of development targets, price rise was also seen (about 30%) vis-a-vis decline in the earlier Plan & the Second FYP was only moderately successful.
- Target Growth: 4.5%; Actual Growth: 4.3%

---

6. Five Year Plans Overview

Key points related to the this Plan are listed below.

- At its conception, it was felt that Indian economy has entered a 'take-off stage'. Therefore, its aim was to make India a 'self-reliant' and 'self-generating' economy.
- Based on the experience of first two Plans (agricultural production was seen as a limiting factor in India's economic development), agriculture was given top priority to support the exports and industry.
- The Plan was a thorough failure in reaching the targets due to unforeseen events – Chinese aggression (1962), Indo-Pak war (1965), severe drought of 1965-66. Due to conflicts, the approach during the latter phase was shifted from development to defence & development.
- Target Growth: 5.6%; Actual Growth: 2.8%

---

6. Five Year Plans Overview

Key points related to the this Plan are listed below.

- Euphemistically, described as a ‘Plan holiday’.
- Failure of Third Plan, the devaluation of rupee (to boost exports) along with inflationary recession led to postponement of Fourth FYP. Three Annual Plans were introduced instead. Prevailing crisis in agriculture and serious food shortage necessitated the emphasis on agriculture during the Annual Plans.
- During these plans, a whole new agricultural strategy was implemented. It involved a wide-spread distribution of high-yielding varieties of seeds, extensive use of fertilizers, exploitation of irrigation potential and soil conservation.
- During the Annual Plans, the economy absorbed the shocks generated during the Third Plan.
- It paved the path for planned growth ahead.