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A Guide to Doing Business in India

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2021

01

Executive Summary



India will remain one of the fastest growing economies in the world in 2021 as the government continues to implement policy reforms and intervene to strengthen economic infrastructure.

The Government of India took on the task of transforming India into a manufacturing power through the 'Made-in-India' campaign launched on September 25, 2014 – a national program designed to facilitate investment, foster innovation, enhance skill development, protect intellectual property and build best-in-class manufacturing infrastructure.

While several initiatives are being undertaken to provide adequate physical and social infrastructure such as industrial corridors, cluster zones, etc., it is encouraging to note that the Government of India (GoI) has embarked on ambitious reforms focused on improving India's performance in the World Bank's Doing Business rankings.

India is ranked 63rd among 190 economies in the ease of doing business, according to the latest World Bank annual ratings.

Snapshot of India

- Seventh-largest country by area
- Second-most populous country with over 1.38 billion people
- 11.5% projected GDP growth for 2021 (IMF)
- World's largest youth population by 2021 (United Nations Population Fund)
- Huge domestic market
- Among the 20 countries that have improved the most on "Ease of Doing Business" (World Bank)
- Foreign Investor friendly and proactive approach of the government
- Availability of skilled manpower and qualified professionals for all kinds of businesses across industry as well as service sector

02

Socio-economy

India is a federal union comprising 28 states and 8 union territories, for a total of 36 entities. India is home to 1.38 billion people. It has the world's largest youth population. Indian population is equivalent to 17.71% of the total world population.

Although India's Gross Domestic Product (GDP) declined in the first six months of the FY 2020-21 on the account of the impact of the Covid-19 pandemic, India's central bank (RBI) has projected positive growth of GDP from Oct-2020 onwards.

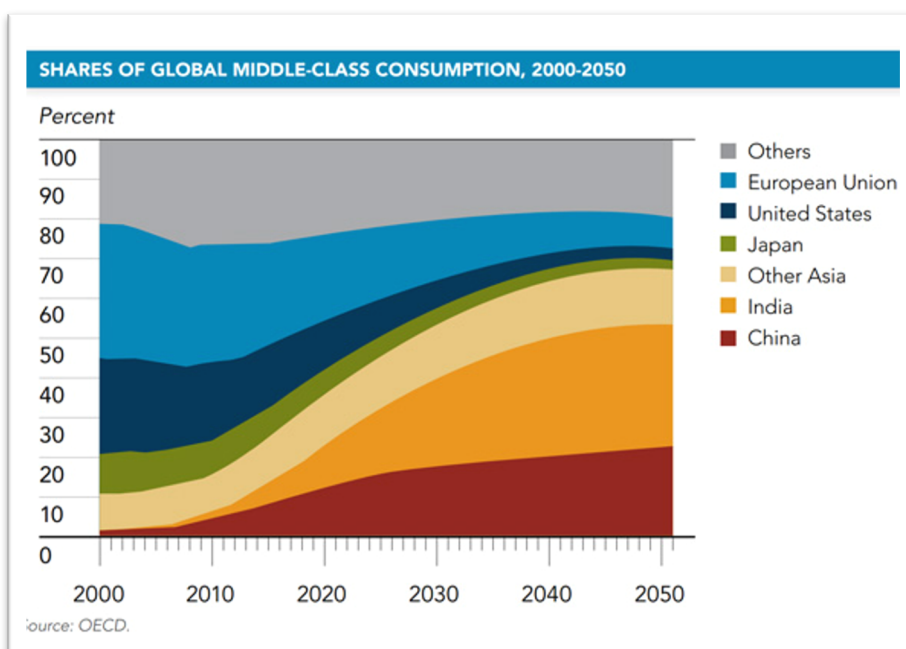
National governments through various Five-Year Plans, starting in 1951, have changed the economic scenario of the country considerably.

Road ahead:

- India's gross domestic product (GDP) is expected to reach US\$ 6 trillion by FY27 and achieve upper-middle income status on the back of digitization, globalization, favorable demographics, and reforms.
- India's revenue receipts are estimated to reach INR 30 trillion (US\$ 400 billion) by 2021, owing to the Government of India's measures to strengthen infrastructure and reforms like Goods and Services Tax (GST).
- India is also focusing on renewable sources to generate energy. It is planning to achieve 40 per cent of its energy from non-fossil sources by 2030, and also have plans to increase its renewable energy capacity from 136 GW in 2020 to 275 GW by 2027.

Why is India Important?

- Emergence of a middle class creates a "sweet spot" – rising incomes – increased spending.
- An estimated 16 million Indians migrate from countryside to cities each year – powerful trend supporting growth – equivalent to the population of Mumbai.
- Half of the Indian population is under 24 – about to enter its economically most productive years.
- Indian government plans to develop 100 smart cities.



03

Setting up business in India

India is an emerging market with wide scope and opportunities for both Indian and foreign investors. The Government of India offers entrepreneurial-friendly policies which makes access and growth of businesses in India easier.

Below is taken from the Indian Brand Equity Foundation's report for 2020: The Indian Government's favorable policy regime and robust business environment has ensured that foreign capital keeps flowing into the country. In the second quarter of FY 2020-21, total FDI inflows amounted to US\$ 28.10 billion, of which equity inflows were US\$ 23.44 billion. This boosted FDI equity inflows to US\$ 30 billion between April 2020 and September 2020, a 15% increase on y-o-y basis compared with the same period in FY 2019-20. India is expected to attract foreign direct investments (FDI) of US\$ 120-160 billion per year by 2025, according to CII and EY report.

(Note: Conversion rate used for December 2020 is Rs. 1 = US\$ 0.014)

Types of Business Entities Permitted in India

1. Company
2. Limited Liability Partnership
3. Partnership
4. Sole Proprietorship

A foreign entity may establish a business presence in India by:

- Opening a liaison office
- Branch office or project office
- Appointing a distributor or franchisee
- Commencing its own operations in India through a business entity registered in India
- Forming a joint venture with an Indian entity
- Acquiring an existing business in India



8 broad steps to starting a business in India:

1. Get the Certificate of Incorporation and Registration for your business entity. Number (PAN)
2. Obtain a Permanent Account
3. Obtain a Tax Account Number (TAN)
4. Register with the Office of Inspector, Shops and Establishment Act (State/Municipal)
5. Register for GST
6. Register for Profession Tax
7. Register with Employees' Provident Fund Organization (National)
8. Register for Medical Insurance

04

Foreign Direct Investment

Policy Framework

Foreign companies invest in India to take advantage of relatively lower wages, special investment privileges such as tax exemptions, etc. It is the intent and objective of the Government of India to attract and promote foreign direct investment in order to supplement domestic capital, technology, and skills, for accelerated economic growth.

Foreign Direct Investment (FDI), as distinguished from portfolio investment, has the connotation of establishing a 'lasting interest' in an enterprise that is resident in an economy other than that of the investor. The Government has put in place a policy framework on Foreign Direct Investment, which is transparent, predictable and easily comprehensible.



Sectors/Routes for FDI in India

Automatic

i) 100% Automatic

The non-resident investor does not require any approval from the Government of India for the proposed investment. The approval route FDI is allowable in all sectors and activities specified under the consolidated FDI policy.

ii) Approval

Prior approval of the Government of India or its agencies is required.

Prohibited

Prohibited sectors under FDI

- Gambling and Betting
- Lottery Business
- Activities/Sector not open to private investment e.g. Railway operations, Atomic energy
- Business of Chit-Fund
- Nidhi Company
- Real Estate Business or Construction of farmhouse
- Trading in transferable development rights
- Manufacturing of Tobacco, Cigar, Cheroots, Cigarillos, Cigarettes and other tobacco substitute

05

Legal & Taxation



Primary regulations under Indian laws:

- i. **Companies Act, 2013** - regulates the formation, functioning and winding up of companies.
- ii. **Foreign Exchange Management Act, 1999** - defines the procedures, formalities, dealings of all foreign exchange transactions in India.
- iii. **Income Tax Act, 1961**- provides for levy, administration, collection and recovery of Income Tax.
- iv. **Goods and Services Tax Act** - The goods and services tax (GST) is a value-added tax levied on most goods and services sold for domestic consumption. The GST is paid by consumers, but it is remitted to the government by the businesses selling those goods and services.

The overall maximum effective Income Tax rates after considering Cess and Surcharge:

Type of Entity	Effective maximum tax rate (Up to 31 st March 2022)
New manufacturing Companies	17.16%*
Other Companies	25.17%*
LLPs	34.94%
Individuals	42.74%
Foreign Companies	43.68%

*Subject to certain conditions



VI. Customs Duty - is a kind of indirect tax that is imposed on imported goods and services, and sometimes, on exported goods and services.

vii. In addition, an Indian company would also be required to obtain common licenses and registrations under the below laws, as applicable on a case-to-case basis:

- Indian trademark law & allied Intellectual property laws
- The Environment Protection Act
- RBI Regulations
- SEBI Act
- Limited Liability Partnership (LLP) Act
- Profession tax
- Competition Act, 2002
- The Insurance Regulatory and Development Authority Act, 1999

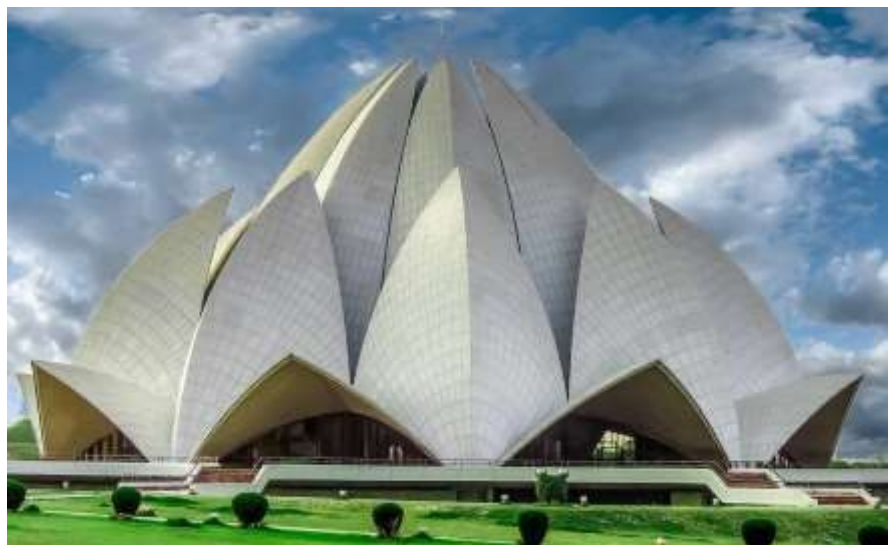
V. Stamp Duty-Stamp duty is levied and collected by the state government on all documented financial transactions, it varies from state to state.

Major Central Taxes

- Income Tax
- Central Goods & Services Tax (CGST)
- Integrated GST (IGST)
- Customs Duty

Major State Taxes

- State Goods & Services Tax (SGST)
- Stamp Duty & Registration



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