

### NEW START-UP / BUSINESS ESTABLISHMENT

Many times people find it difficult to choose '*Appropriate*' form of business entity for their new Start-up or Joint Venture.

Question	Answer
<p><i>What are the different options or modes of Business Entity / Organisation for a new start-up?</i></p>	<p>In this modern world, we have various options to decide mode of our Business Entity / Organisation such as:</p> <ul style="list-style-type: none"> <li>▪ Sole Proprietor (traditional form)</li> <li>▪ Partnership Firm (traditional form)</li> <li>▪ Joint Venture</li> <li>▪ Private Limited Company</li> <li>▪ Public Limited Company</li> <li>▪ Limited Liability Partnership</li> <li>▪ One Person Company (Emerging concept in India)</li> </ul>
<p><i>Which form of a Business Entity / Organisation is the best option?</i></p>	<p>There is no exact answer to this question. In fact, the question should be which form of Business Entity is more suitable in the larger interest of my business, coz we believe each form of business has its own unique characteristics. Similarly each mode of Business Entity / Organisation has its own merits and demerits.</p>
<p><i>What are the advantages and disadvantages of various options or modes of Business Entity / Organisation?</i></p>	<p>Major advantages and disadvantages are as below:</p> <ul style="list-style-type: none"> <li>▪ <b>Limited Liability:</b> In case of Sole Proprietor, Partnership Firm and Joint Venture liability of a proprietor or partners is unlimited whereas in case of <u>Private Limited Company, Public Limited Company, Limited Liability Partnership, One Person Company</u> liability of a shareholder or partner is limited.</li> </ul> <p>What is meaning of limited liability? It means owner / promoter / shareholders are not '<b>personally liable</b>' for the acts or business or performance of Business Entity i.e. to say your personal assets are protected from attachments in the event of bankruptcy or closure of your business.</p> <p>During a recent survey, it has been observed that every year new business start-ups loose around US \$ 3 billion mainly due to <b>unlimited liability</b>.</p>

Question	Answer
	<ul style="list-style-type: none"><li>▪ <b>Fund Raising:</b> Easy availability of funds in case of <u>Private Limited Company, Public Limited Company, Limited Liability Partnership and One Person Company</u> compared to Sole Proprietor, Partnership Firm and Joint Venture.  Main source of finance in case of Sole Proprietor, Partnership Firm and Joint Venture is through their own savings or borrowings from their close relatives whereas banks, financial institutions, financial investors are more comfortable in providing financial assistance to <u>Private Limited Company, Public Limited Company, Limited Liability Partnership and One Person Company</u> due to on-going financial &amp; other disclosure requirements imposed by Indian laws which leads to easy availability of information in public domain.</li><li>▪ <b>Tax Planning:</b> Although <u>Private Limited Company, Public Limited Company, Limited Liability Partnership, Partnership Firm, Joint Venture and One Person Company</u> are liable to pay tax at the higher rate (30%) of income tax but still they carry better scope for tax planning.</li><li>▪ <b>Business Promotion:</b> <u>Private Limited Company, Public Limited Company, Limited Liability Partnership and One Person Company</u> carries an edge over traditional form of business organisations owing to trust and respect established in the minds of public at large.</li><li>▪ <b>Succession Planning:</b> Assets or properties of <u>Private Limited Company, Public Limited Company, Limited Liability Partnership and One Person Company</u> are owned in the name and favour of Business Entity only and not in the personal name of its owner / shareholder / partner / director therefore any change in ownership or control of Business Entity doesn't affect its assets or properties.</li></ul>

Question	Answer
<p><i>After considering major advantages and disadvantages, which is the best option suitable for my new venture?</i></p>	<p>Choosing '<b>Appropriate</b>' mode of Business Entity / Organisation is an '<b>Art</b>' and we pioneer in that. No doubt, major highlighted merits and demerits hold strong base while choosing appropriate mode of Business Entity. However, we consider other parameters also while advising our clients on this front.</p> <p>As already said every business has its own unique characteristics so by blending such things we arrive at a conclusion from a long-term perspective.</p> <p>Please do meet us once coz we don't charge fees for that!</p>
<p><i>What will happen if I choose my Business Entity without any expert guidance?</i></p>	<p>You may not be able to achieve end result. Following are few examples:</p> <ul style="list-style-type: none"> <li>▪ High tax burden thereby eroding profits;</li> <li>▪ Higher business risk. Here, one may say that business is all about risk but we differ on this. We believe, business is about <b>calculated risk</b>;</li> <li>▪ Poor visibility of your business may lower your business opportunities. Remember, strong positioning of your Business Entity can help you to grab larger portion of market share.</li> </ul>
<p><i>Do I have to register Sole Proprietorship or Partnership Firm with any Government Authority?</i></p>	<p>In both the cases it is not mandatory. However, in case of Partnership Firm ("PF"), we strongly advice to get it registered with the state authority in which it operates coz unregistered PF can be sued by its creditors but it <b>cannot sue</b> its debtors (means the one from whom money is receivable to PF).</p>
<p><i>Do I have to register Private Limited Company, Public Limited Company, Limited Liability Partnership and One Person Company with any Government Authority?</i></p>	<p>Yes. It needs mandatory registrations without which business cannot be commenced.</p>
<p><i>Do I have to get any other registrations?</i></p>	<p>Yes. Apart from above, any Business Entity needs to obtain following registrations, depending upon nature of its business:</p>

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Question	Answer
	<ul style="list-style-type: none"><li>▪ Income Tax PAN</li><li>▪ Income Tax TAN</li><li>▪ Profession Tax</li><li>▪ Shop Act</li><li>▪ VAT</li><li>▪ Service Tax</li><li>▪ Provident Fund</li><li>▪ Employees State Insurance</li><li>▪ IEC Code</li><li>▪ Small or Medium Scale Industries.</li></ul>