
PARTNERSHIP OR PRIVATE LIMITED COMPANY OR CONVERTED PARTNERSHIP FIRM?

The most common forms of business organizational structure in India are **Proprietorship, Partnership and Company.**

When going into business with someone else, one of your first decisions will be which business structure to choose?

Although there are several different options to choose from, two common choices are a **partnership** or **private company** structure.

Both structures have very different consequences for:

- How the business will run?
- Tax obligations;
- setup and ongoing costs;
- Management and control. Etc.

COMPANY

A company is a legal entity formed by a group of individuals to engage in and operate a business enterprise in a commercial or industrial capacity. A company is generally organized to earn a profit from business activities. Under a company structure, directors make management decisions, while shareholders have stake in the company's profits. This distinction between shareholders and directors *means it is also possible for people to have an ownership stake in the business without making management decisions.*

PARTNERSHIP

A partnership is a formal arrangement by two or more parties to manage and operate a business and share its profits. You **do not need** a written agreement to form a partnership. A verbal agreement is enough. However, it is recommended that you have a written partnership agreement in place that sets out the roles of the partners and how you will distribute the income and losses.

Benefits of conversion from Partnership to a Private Limited Company

The major benefit of converting a Partnership Firm to a Private Limited Company is that it gives a status of a *separate legal entity which a partnership firm does not have.* In case of a partnership, a partner's personal assets are attached and they would be held personally responsible for each and every debt or liability that the business incurs. Hence, with the expansion of business, if partners want to increase its credibility and put limited liability on its members, it is more favourable for the partners to convert their Partnership into a Private Limited Company. Even though statutory compliance for a Private Limited Company is

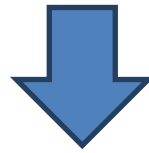
higher than those of a Partnership Firm, it gives the Company *more opportunities to flourish and expand.*

Conversion of Partnership Firm into a Private Limited Company



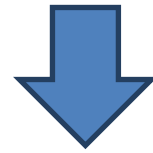
No Stamp Duty

All movable and immovable properties of the firm automatically vest in the Company. No instrument of transfer is required to be executed and hence no stamp duty is required to be paid.



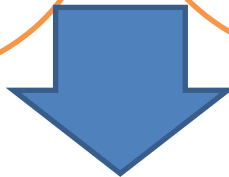
Raising Capital

Raising Capital is easier in the Private Limited Company as it allows the members to participate without taking on any personal accountability; unlike the general partnership where all common partners have unrestrained liability



Automatic transfer

All the assets and liabilities of the firm immediately before the conversion become the assets and liabilities of the company.



No Capital Gain Tax

No Capital Gains tax shall be charged on transfer of property from Proprietorship firm to Company.



Continuation of Brand Value

The goodwill of the firm and its brand value is kept intact and continues to enjoy the previous success story with a better legal recognition.



Separate legal entity

A partnership is not a separate legal entity. If one of the partners dies or retires, or has to leave the firm, the partnership ceases to exist and so a new partnership has to be formed. But this is not the case of a private limited company. The private limited company is a separate legal entity hence it also provides the capacity to sue third parties.

Expand your business reach with better funding, credibility and security by converting
Partnership Firm to Private Limited Company.

Please feel free to reach out to us!!!

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Thanks and Regards
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