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Ayana Legal

THE BUZZ

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Monthly Newsletter By Team Ayana Legal

TYPES OF BUSINESS ENTITIES

Having an idea may be the cornerstone for setting up a business, but the setting up of an appropriate entity to materialize it is just as, if not more important. In this issue of 'The Buzz' we take a look at some of the different types of entities to start a business.

Sole Proprietorship

As the name suggests this type of entity is owned and run by a single individual. Since the owner and the business are one, the owner has unlimited liability. Sole proprietorships do not have a separate legal existence unlike companies. A problem often faced by such entities is the lack of capital as investors and banks remain wary due to the heightened risk involved in dealing with such entities. The liability of a sole proprietor is unlimited and the proprietor is also personally responsible for all the debts of the business.

Company

Governed by the Companies Act, 2013, a company is a separate legal entity. Companies can either be public; i.e. their shares traded on the stock exchange; private or for charitable purposes. In each of which the liability of the members may either be unlimited, limited by the shares owned by them or limited by the amount they have agreed to act as guarantors for. The Companies Act also allows for a one person company which has only one member who may also act as the director of the company.

Other types...

Other terms - 'Joint-Venture'.

Such entities are created when two or more parties decide to combine and share their resources for a particular project.

There are no separate laws governing Joint Ventures. They are governed by the agreement that is in place between the parties.

As a result of being governed by an agreement, the liability of each of the parties can be restricted, and generally do not have unlimited liability.

Further, Joint Ventures are usually for a specific duration of time. Once the purpose for which it was set up is achieved, the arrangement is concluded.

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A 'Start-Up' refers to either a private company, partnership or LLP which has not completed 10 years since incorporation and has not had an annual turnover exceeding Rs. 100 crore for any of the financial years since its Incorporation.

On being recognized by Department for Promotion of Industry and Internal Trade (DPIIT) start-ups are given a wide range of benefits including exemption from paying income tax for the first 3 years since incorporation and self-certification for compliance with labour and environmental laws.

Thank You

We at Ayana Legal thank you for your continued support and patronage to our newsletter and capsules. We look forward to being back with our next edition soon.

Disclaimer

This newsletter is solely for the purpose of providing information and the content provided is not and should not be construed as legal advice.

Partnership

A partnership is an agreement between two or more persons to carry on a business, which may be for a particular period of time. Such agreements are governed by the Partnership Act, 1932. An important feature of partnerships is that the partners are considered agents of the partnerships and have unlimited liability. All partners are jointly and severally liable for any acts and debts.

LLP

LLP a.k.a "Limited Liability Partnership" is often referred to as an entity containing features of both a Company and a Partnership. The rights and duties of the partners are governed by an agreement and their liability is limited to their contribution to the LLP. No partner is liable for independent and unauthorised actions of other partners. An LLP is capable of entering into contracts and holding property.

Trust

A person called a 'grantor' creates a trust to which he transfers his assets and/or property for the benefit of certain beneficiaries named by him. The trust property is held by and taken care of by certain individuals called 'trustees'. A trustee is bound to deal with the property as if it were his own. A trustee cannot delegate his office or any of his duties unless in the circumstances as provided for in the Indian Trusts Act, 1882.

Society

It refers to an organization formed by the voluntary association of 7 or more individuals for any literary, scientific, or charitable purpose. All property, movable and immovable, shall vest in the governing body of the society if it is not controlled by trustees of a trust. Individuals can become members of societies by paying a subscription or signing the roll of members.