Benefits of Conversion of Private/Unlisted Public Limited Company into LLP

1. Taxation

LLPs are taxed like general partnership firms. LLPs pay an effective tax of 30.9%. They are exempted from 10%
surcharge. LLPs tax payment is lower than that of companies, which pay a 33.99% tax on profits.

The tax will be imposed only on 10% or 40% of the LLPís income, since the firm will be allowed to pay the balance
90% or 60% to the partners as remuneration. This means, the partners will have to pay tax on the amount paid to them. So, there will be no double taxation of income.

Unlike Pvt. Or Public Companies, no requirement for payment of Dividend distribution/Corporation Tax on distribution of income/profits among partners and there is no requirement as to Minimum Alternate Tax.

2. No Audit requirement

Audit is not required unless capital exceeding Rs. 25 lakh or turnover exceeding Rs. 60 lakh.

3. Automatic transfer

All the assets and liabilities of the Company immediately before the conversion become the assets and liabilities of the
LLP.

4. No Stamp Duty

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

5. No Capital Gain Tax

No Capital Gains tax shall be charged on transfer of property from Company to LLP, subject to the following conditions:

- The total sales, turnover or gross receipts in business of the company do not exceed sixty lakh rupees in any of the three preceding previous years;

- The shareholders of the company become partners of the LLP in the same proportion as their shareholding in the company;

- No consideration other than share in profit and capital contribution in the LLP arises to partners;

- The erstwhile shareholders of the company continue to be entitled to receive at least 50 per cent of the profits of the LLP for a period of 5 years from the date of conversion;

- All assets and liabilities of the company become the assets and liabilities of the LLP; and

- No amount is paid, either directly or indirectly, to any partner out of the accumulated profit of the company for a period of 3 years from the date of conversion.

6. Carry Forward and Set off Losses and Unabsorbed Depreciation

The accumulated loss and unabsorbed depreciation of Company is deemed to be loss/ depreciation of the successor LLP for the previous year in which conversion was effected. Thus such loss can be carried for further eight years in the hands of the successor LLP.

7. No Limit on number of shareholders/partners

Unlike private limited companies (shareholders limited to 50), an LLP can have unlimited number of partners.

8. Minimal Compliance Level & Cost effective model

There is no need of compliances related to meetings and maintenance of huge statutory records.

9. Continuation of Brand Value

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

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Conversion of Private/Public Limited Company into LLP

Key requirements:

- On Conversion, all the members/shareholders of the company shall become partners of the LLP in the same proportion in which their capital accounts stood in the books of the company on the date of the conversion.
- Upto date filing of Income tax returns & Annual returns with RoC
- Consent of all the unsecured creditors for the proposed conversion
- The partners receive consideration only by way of allotment of shares in LLP
- Minimum 2 Designated Partners
- Atleast 1 of the designated partners shall be an Indian Resident
- If a body corporate is a partner, it has to nominate a natural person as its nominee
- The Partners and Designated Partners can be same person
- There is no concept of share capital, but there has to be some sort of contribution from each partner
- DPIN (Designated Partner Identification Number) for all the Partners
- DSC (Digital Signature Certificate) for two of the Designated Partners

Steps in Conversion of a Private Limited Company into an LLP

Step No.	Steps	Timeframe (Working days)	Processing
1.	**DPIN (Designated Partner Identification Number)** • Approved DPIN is a pre-requisite for incorporation process	**5**	• Apply for DPIN and get a provisional DPIN • Certification/Attestation of Directorís personal details • Sending the same to the MCA Cell and getting it approved
2.	**Application for Name Availability** • Filing of Form 1	**3**	• on conversion of private company only deletion of words ìPrivate/Public Limitedî and addition of the word ìLLPî in existing name of the company as last word are allowed

3.	**Documents required for Conversion** • LLP Agreement • Form 18 (Application for Conversion)	**2**	• Drafting the LLP Agreement and after getting it vetted by Promoters, sending it for printing • Important attachments for Form 18 – Statement of shareholders

	• Form 2 (Statement by Promoter) • Form 3 (Information regarding the LLP Agreement) • Form 4 & Form 9 (Notice of Consent & Appointment of Designated Partners with their personal details) • Subscription sheet signed by the promoters • Duly stamped LLP Agreement • Proof of Address of Registered Office		– Statement of Assets and Liabilities of the company duly certified as true and correct by the auditor – List of all the unsecured creditors along with their consent – Approval from any other body/authority, if required. • Processing of eForms
4.	**Final Process:** • Filing all the above documents with the ROC, follow up with the ROC • Making changes in LLP Agreement/ other conversion documents as suggested by the ROC	**5**	• Online uploading of e-Forms • Payment of Registration fees • Issue of Certificate of Incorporation

Tax Savings under LLP STRUCTURE as compared with PRIVATE/PUBLIC LIMITED COMPANY (When the annual net Profit is upto 25 Lacs)

Rs. 6,34,000 Savings

PRIVATE LIMITED COMPANY		LIMITED LIABILITY PARTNERSHIP (LLP)			
Net Profit	**Total Tax outlay from the Company**	**Net Profit Slabs**	**Taxation Slabs**		**Total Tax outlay from the LLP & Partners**
Income Tax =	**Rs.8,25,000** (33% on Rs. 25 Lacs) (Net Profit available for distribution as Dividend= Rs. 16.75 Lacs)	Rs. 3 Lacs	**10 % Taxed in the hands of LLP**	➢ **31% on Rs. 30,000 =**	Rs. 9,300
			90 % Distributed to Partners as Remuneration	➢ Rs. 2,70,000 is distributed among the Partners	
				If equal distribution among Partners: Rs. 1.35 Lac each	
Dividend Distribution Tax=	**2,68,000** (16% on Rs. 16.75 Lacs)	Rs. 22 Lacs	**40 % Taxed in the hands of LLP**	➢ **31% on Rs. 8,80,000 =**	Rs. 2,72,800
			60 % Distributed to Partners as Remuneration	➢ Rs. 13,20,000 is distributed among the Partners= Rs. 6,60,000 each	
				➢ Hence total remuneration paid to each Partner is Rs. 7,95,000 (1.35 lac+ 660K)	
				➢ Each Partner to pay tax on Rs. 7,95,000 -Upto Rs. 1.6 lac =Nil -On 3.4 lac = Rs. 34 k - On 2.95 lacs = Rs. 59 k	Rs. 1,86,000 (Rs. 93,000 each)
	Rs. 10,93,000				**Rs. 4,58,000** (If one of the partner is Female/Senior citizen tax will be less than Rs. 4,50,000

TOTAL SAVING UNDER THE LLP MODEL IS RS. 6,34,000/RS. 6,30,000

(Rs. 10,93,000 ñ Rs. 4,58,000= Rs. 6,34,000)

Vansh