Private Limited Company VS LLP

Introduction

Generally there is a confusion among the startups in India about the nature of the entity to start their business with. In order to solve their confusion, they do lots of research online to select the best suitable nature of entity for their type of business and scale of business. Generally due to lack of knowledge, they opt for a less suitable type of entity and later it creates more problems for them. In order to sort out this issue, we have already done our extensive research on Private limited company VS LLP.

So, now you concentrate on your business operations and let us take care of your compliances and regulatory requirements.

Basics

In a nut shell, if you are into a small or mid-size business and you don't seek any funding, you should preferably opt for an LLP.

Both LLPs and Private limited companies are to be registered with the ministry of corporate affairs. And both has almost similar process for registration.

Now let's see a comparison between both of them:

Basis	LLP	Private Limited company
Number of members	Min - 2, Max - no cap	Min - 2, Max – 200
Taxes	a. Income tax @ 30% b. MAT@18.5% c. No requirement for Dividend distribution tax	a. Income tax @ 30 % b. MAT @ 18.5 % c. Dividend distribution tax @ 20.4746%
Capital Contribution	Not specified	Private company should have a minimum paid up capital of Rs. 1 lakh
Personal Liability	Limited to the extent of the contribution to the LLP	Limited to the extent of the unpaid capital
Foreign Nationals as shareholder / Partner	A foreign national can be a partner	A foreign national can be a shareholder
Meetings	No such requirement	4 Board of directors meetings a year and an annual general meeting is compulsory

Annual Returns	Annual statement of accounts and solvency & Annual Return has to be filed with ROC.	Annual Accounts and Annual Return to be filed with ROC.
Audit	Required only in case contribution is above 25L or if annual turnover is above 40L	Compulsory
Dissolution	Less procedural	Very procedural
Venture capitalists preference	Low	High
Credibility	Low	High due to strict compliance
Conversion	Cannot be converted to a private limited company	Can be converted to an LLP
Cost of registration	Low	High
Annual ROC cost	Low	High
Esops	Not possible	Possible

Conclusion

Private limited companies are well established in India, and has a wide spread recognition, whereas LLP being a relatively new concept in India, Investors prefer investing in Companies rather than LLPs.

Now in case you are looking to raise fund or offer ESOPs to your employees, private limited company is the way to go. In case you don't have any such requirement you should probably go for an LLP. However, do take some time to think over it, as if you get an LLP registered you need to get all other registrations done on its name. And in future you think to switch from an LLP to a Company, considerable efforts would be required.

Once you decide upon your nature of business, you can approach us for any sort of compliance requirement.

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