PARTNERSHIP FIRM VS. PRIVATE LIMITED COMPANY IN INDIA

PARTNERSHIP FIRM

ADVANTAGES

- The process to set up a partnership firm is simple and less costly compared to a private limited company. A partnership firm can be established by entering into a partnership agreement which can either be oral or written. No minimum amount of capital is required to set up a partnership firm.
- Can be changed in form, structure, purpose at any time with just the consent of the partners.
- A partner has direct control over the day to day operations of the firm. The business risks are shared in accordance with the partnership agreement amongst the partners.
- Easy to terminate a partnership by merely entering into a dissolution agreement between the partners.
- Less regulatory compliances compared to a private limited company

DISADVANTAGES

- A foreign company cannot form a partnership in India without the prior consent of the Reserve Bank of India (RBI).
- A partnership is inseparable from its owners. As a result, each partner is personally liable for the entire amount of any business-related obligations.
- Ownership cannot be transferred freely unless provided for in the partnership agreement.
- Change in a partner leads to the dissolution or formation of a new partnership.
- Limited access to private equity funding as an investor would have to be made a partner in the partnership

PRIVATE LIMITED COMPANY

ADVANTAGES

- For a foreign company to set up a private limited company which engages in manufacturing activity does not require a prior government approval.
- Each shareholder's liability shall be limited to the number of shares held in the company.
- Ownership in a private company can be easily transferred and its existence is not dependent on its shareholders or directors.
- A legal entity in the form of a private limited company is more tax advantageous than a partnership firm.
- Greater access to private equity funding as a representative of the private equity fund can be appointed as a director in the company and such representative can participate in the management of the operations of the private limited company

DISADVANTAGES

- It is mandatory to register a private limited company in India. The registration process is more costly and complex than a partnership firm.
- A private company is required to fulfill more regulatory requirements such as appointing a statutory auditor, hold annual general meetings, maintain registers etc.
- The process to wind up a private company in India is more complex as numerous regulatory requirements need to be fulfilled.

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