ADVANTAGES OF FORMATION OF LIMITED LIABILITY PARTNERSHIP (LLP)

Limited Liability Partnership entities, the world wide recognized form of business organization has now been introduced in India by way of Limited Liability Partnership Act, 2008. A Limited Liability Partnership, popularly known as LLP combines the advantages of both the Company and Partnership into a single form of organization.
LLPs also have many advantages over proprietorships, partnerships and limited companies as elaborated below.

● LIMITED LIABILITY

First and foremost benefit of trading/doing business via LLP is the limited liability conferred upon the partners. As a sole trader or partnership business, personal assets of the proprietor or partners can be at risk in the event of a failure of the business, but this is not the case for an LLP. Unfortunate events like business failures are not always under an entrepreneur's control; hence it is pivotal to secure the personal assets of the businessman in the event of crises. Unlike proprietorship and partnership, if an LLP becomes insolvent and is wound up, only the assets of the LLP are used to clear its debts. The partners of LLP have no personal liabilities and are not made bankrupt and are free to operate as credible businessmen.

● LEGAL ENTITY/STATUS OR RECOGNITION

An LLP is a legal entity, a juristic person established under the Act. It has its existence separate from its partners. Corporate entity status enables LLP to be taken more seriously than a proprietorship/partnership status does. Operating as a corporate entity/LLP often gives suppliers and customers a sense of confidence in a business. Larger organisations in particular will prefer in dealing with corporate entities than proprietorship/partnership organisations. Easy to attract quality workforce and achieve strategic motivation of employees by using flexible and wide range of management designations.

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 40% of the LLP's income, since the firm will be allowed to pay the balance 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.

NO AUDIT REQUIREMENT

Tax Audit is not required unless capital exceeding Rs. 25 lac or turnover exceeding Rs. 60 lac.
Unlike Limited Companies, no requirement for payment of Corporation Tax on distribution of income among Partners.
Unlike Private Limited Companies, LLPs are exempted from statutory audit.

OTHER IMPORTANT ADVANTAGES

Low cost of Formation and compliances
Less statutory compliances as compared to
Private limited Companies
Less requirements as to maintenance of statutory records
Renowned and accepted form of business worldwide
No requirement of any minimum capital contribution
No restrictions as to maximum number of partners
Body corporate can be a partner of an LLP