

THE ADVANTAGES OF REGISTRATION OF COMPANY

A Private limited company has many advantages over proprietorships and partnerships as elaborated below.

BORROWING CAPACITY

A company enjoys better avenues for borrowing of funds. It can issue debentures, secured as well as unsecured, accept deposits from the public, etc. Even banking and financial institutions prefer to render large financial assistance to the company rather than partnership firms or proprietary concerns.

TAXATION

Sole traders and partnerships pay income tax. Companies pay Corporation tax on their taxable profits. There is a wider range of allowances and tax deductible costs that can be offset against company's profits.

RAISING MONEY FROM PUBLIC

Public Limited Companies can raise large amount of capital from the general public by issue of shares and public deposits. Private Limited Companies can raise capital by private placement of shares and deposits.

First and foremost benefit of doing business via company is the limited liability conferred upon the company's directors and shareholders. 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 a Company. The 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 a Company becomes insolvent and is wound up, only the assets of the company are used to clear its debts. The Directors or Shareholders of the company have no personal liabilities and are not made bankrupt.

LIMITED LIABILITY LEGAL ENTITY OR RECOGNITION

A private limited company is a legal entity, a juristic person established under the Act. It has its existence separate from its directors and members.

Operating as a private limited company often gives suppliers and customers a sense of confidence in a business. Larger organizations in particular will prefer in dealing with private limited companies than proprietorship / partnership organizations.

Easy to attract quality workforce and achieve strategic motivation of employees by using flexible and wide range of management designations.

EASY TRANSFERABILITY

Where it is proposed to sell the business as a going concern, all that is required is to transfer the entire shareholding to the purchaser and thus facilitates easy change in management and ownership.

This will save time and money for the Promoters. Huge amount of stamp duty is saved. This feature is very useful for easy and hassle free exit avenues for entrepreneurs. Easy transferability of business and ownership also helps in attracting venture capital funding for new business ventures.

DUAL RELATIONSHIP

In the company form of organization it is possible for a company to make a valid contract with any of its shareholders/directors. It is also possible for a person to be in control of a company and at the same time be in its employment. Thus, a person can at the same time be a shareholder, director, creditor and employee of the company.

For eg:

As a director he can receive remuneration.

As a shareholder he can receive dividend.

As a lessor he can receive lease rent.

As a creditor he can lend money and earn interest.

As a supplier he can supply goods from his/his family business.